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The pages involved are: vi, 32, 128, 302, 326, 224 and 344.
An Enhanced Paradigm of Entrepreneurial Business Planning

Development
Case Applications
And General Implications

Kevin Hindle

Dissertation Submitted
For The Award Of The Degree Of
Doctor Of Philosophy
Swinburne University Of Technology

February 1997
To

George (1917-1994)

Betty

and Kitty
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THESIS ABSTRACT

The research project reported in this dissertation discovered, applied and drew inferences about the utility and applicability of an enhanced paradigm of Entrepreneurial Business Planning (EBP). The project was motivated by the observation that a clear disparity existed between the teaching of entrepreneurship - in which attention to EBP has been intense and significant - and entrepreneurship research - in which attention to EBP has been negligible.

Discovery commenced with development of an analytical framework suitable for classifying and analysing an EBP paradigm, should one be found to exist. This framework was created by combining the four essential ingredients of a paradigm - distilled from an analysis of several definitions of the word paradigm in appropriate contexts - with the three core roles which Mintzberg (1994) argued are the key descriptors of the function of any plan. An existing but inadequate EBP paradigm was revealed by a content analysis, conducted according to an adapted combination of the methodological prescriptions of Krippendorf (1980) and Carney (1972), of a large sample of the existing EBP normative literature: that is, prescriptions purporting to teach the reader how to write a successful Entrepreneurial Business Plan. A combination of logical critique, application of appropriate analytical models and development of grounded theory - based upon the methodology first articulated by Glaser and Strauss (1967) - resulted in production of an enhanced EBP paradigm, a complex construct embracing:
(1) precise definition of application boundaries,
(2) twelve laws;
(3) six success rules;
(4) and specified instrumentation requirements.

Application of the enhanced EBP paradigm involved four research case studies embracing the case research methodology espoused by Yin (1989). Four Entrepreneurial Business Plans were written according to the prescriptions of the enhanced EBP paradigm and submitted to the marketplace. Sufficient time (between four and eight years) was allowed for results to be monitored. The four case study businesses were selected to span a variety of key attributes designed to maximise two things:
(1) the ability to attribute causation of observed results (most particularly the attraction of the investment funds solicited by each Entrepreneurial
Business Plan) directly to the application of the enhanced EBP paradigm rather than any other possible cause;
(2) the ability to make wide rather than narrow inferences about the applicability and utility of the enhanced EBP paradigm.

Inferential conclusions were drawn from individual and cross-case analysis. Four points encapsulate the most significant results of the research to the community of entrepreneurship scholars and practitioners and beyond them, to the managerial community at large.
(1) The research provides a basis for systematic inquiry in the field of Entrepreneurial Business Planning and a template for quality assessment of Entrepreneurial Business Plans.
(2) It redresses the imbalance between research and teaching in an important field of the entrepreneurship discipline.
(3) It extends the domain, credibility and utility of entrepreneurship as a discipline.
(4) It is the potential generator of many practical analytical constructs and corollary theory in a wide variety of managerial fields.

Extended case analysis provided two examples of domain extension and the generation of corollary theory and practice: first, in the field of 'venture renaissance' (a term coined to represent the domain of all non startup applications of the enhanced paradigm of Entrepreneurial Business Planning) and second, in the field of mergers and acquisitions. These two illustrations of corollary theory and practice provide strong concluding arguments in favour of the proposition that the enhanced EBP paradigm has substantial general utility.

In summary, as a result of the research reported in this dissertation, Entrepreneurial Business Planning may be regarded as a distinct grouping of integrated techniques amounting to a managerial technology for removing impediments to business growth by attracting necessary investments on behalf of articulated strategies. Entrepreneurial Business Planning has thus emerged from vague definition amid the narrow contextual confines of a startup venture seeking venture capital, to precise definition in a far broader context as a generic technology for the removal of impediments to business growth, wherever and however they occur.
ACKNOWLEDGEMENTS

When I was six years old, my parents determined to find the money, somehow, to pay the high fees required to send me to a better school than the one which I was currently attending. They were not wealthy but, in any case, the measure of their sacrifice was never an amount of dollars. It was a gift of love expressed as a respect for education. For the privilege of a long and varied education which is the necessary predicate of every doctoral dissertation, my first acknowledgement must be to my parents and the teachers of the great schools to which they sent me: The Scots College and Sydney Church of England Grammar School.

At the Royal Military College, Dunrobin, Gerry Walsh gave me faith in my ability as a scholar: an ability nurtured at the Australian National University by many revered teachers, especially Professor Manning Clark, and culminating in the award of a first class honours degree in history. My teachers for the next seven years all came from the world of work until, as an MBA student at the University of Adelaide, I had the benefit of learning, inter alia, from Bob Newman, James Thacker, Professor Fred McDougall and Dr Fred Bloch. In 1983, Professor Ray Molloy provided my freshly minted MBA and CPA awards with an academic wall upon which to hang at the Elton Mayo School of Management and encouraged my interest in entrepreneurship teaching and research by employing me as a lecturer in the National Enterprise Workshop program. For the next five years I blended the roles of entrepreneur and teacher of entrepreneurship - including two years at the David Syme Business School where Dr John Bailey founded the Centre for Development of Entrepreneurs and gave me the opportunity to participate in several of its early projects.

In 1988, Jim Reark offered me the opportunity to earn my living as a professional business researcher when he appointed me senior project director and national business development manager of Reark Research, Australia's largest ad hoc marketing and social research company. The experience of working with Jim and later with Graham Nicholls and numerous Reark researchers in the highly competitive environment of commercial research provided perspectives upon the research process unavailable within the groves of academe which I entered again, in 1990, at Swinburne University of Technology, to work on developing the teaching and research programs of what was then the School of Innovation and Enterprise.
The School was headed by Professor L.M. (Murray) Gillin, the supervisor of the doctoral program which I had commenced while still working at Reark Research and which has culminated in this thesis.

The modern PhD thesis embodies two elements that are so distant from one another as to be almost mutually incompatible. On the one hand, the PhD candidate has a role which might be classified as the 'highest of the high'. He or she is told that the PhD thesis is a document which must make an original contribution to knowledge, commencing on the frontier of what is known and extending the boundaries of human understanding. Very few could fail to be attracted by this aspect of the doctoral task whose outcome might be called 'the thesis for knowledge's sake'. On the other hand, the PhD candidate has a role which might be classified as the 'lowest of the low'. He or she is deemed a lowly apprentice at the craft of research and the PhD process and the thesis which encapsulates it is merely a training in research techniques followed by a demonstration that the apprentice has learned and mastered some of them. At its worst, this aspect of the PhD process can result in an outcome which might be called 'the thesis for technique's sake'. Such outcomes confuse means and ends. Methods and their study - methodology - have their proper place in the world as means. They are not ends in themselves. There is no merit in methodology for its own sake - no matter how engrossing, arcane or elegant are the techniques which comprise the research methods it studies.

In executing this study, I had to wrestle with three qualitative methodologies which I had not previously employed as a professional researcher: content analysis; grounded theory and case research. That I was able to use them as means and not ends is due to four people. Harry Van Andel and Pira Duraiswami tirelessly worked under my auspices to provide the content analysis of the EBP literature with the necessary combination of triangulation and dispassionate classification of elements which the technique demands and no solo researcher can supply. Professor Bill Bygrave of Babson College was an early mentor of my endeavours, providing by example the living proof that entrepreneurship research can successfully combine intellectual rigor and practical utility. Professor Dan Jennings of Baylor University was a later mentor, giving me confidence that my field, the virtually empty research field of Entrepreneurial Business Planning was a valid and vital research area in need of some pioneering.
The thesis had a long gestation period in the field and I owe debts of gratitude to people and organisations too numerous to list. For over fifteen years I have performed Entrepreneurial Business Planning in many capacities: as a consultant to entrepreneurs seeking private equity investment and access to debt funds; as a consultant to investors seeking to evaluate entrepreneurial ventures; as investment portfolio manager of the venture capital division of a publicly listed investment corporation. On behalf of organisations ranging in size from nascent one-person, one-product enterprises to multi-national corporations, I have written over fifty Entrepreneurial Business Plans, and performed over thirty strategic evaluations of potential acquisitions for prospective investors. To all those client organisations and their people I express my sincere thanks for the wealth of practical knowledge they provided in what became my grounded theory data base. But special thanks are owed to the key protagonists of the four cases employed in this thesis. To Dr Wolfgang Rosenkotter, General Manager of Confoil Limited; Robert Mittag, formerly of Elders Rural Finance Limited and now General Manager, Planning Services of Coles Myer Limited; Richard Power, Managing Director of Rental and Finance Limited and Ron Abel, Managing Director of ChildCo, I extend my deepest gratitude for having the courage and forbearance to permit a researcher with an emerging theory to scrutinise their operations in real time with real dollars at risk.

The most important assistance of all came from my advisor at every stage of the research agenda, my supervisor, Murray Gillin. I thank him unreservedly for his faith, patience and editorial perspicacity.

Finally, it can never be forgotten by those who type their own manuscripts that, at its most basic level, a PhD thesis is a document: a long, complex document. Lois Harmon, proof-reader extraordinaire, deserves a medal for her painstaking work in scrutinising the manuscript for errors. Despite all help received from all quarters, many errors in many areas doubtless remain. The responsibility for them is mine alone.

'Alone' is a very apt word for describing the doctoral candidate, because PhD research is quintessentially a very lonely pursuit. It was the support and affection of my wife and children in shared times and places away from the project which refreshed me for the solitary rigors of the research and gave me the energy to finish it.

1 The names 'Ron Abel' and 'ChildCo' are noms de guerre by request.
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NOTE

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The pages involved are: vi, 32, 128, 302, 326, 224 and 344.
THE RESEARCH PROJECT IN CONTEXT AND CONTENT

CHAPTER ABSTRACT

The chapter introduces the research project, defines the key terms and concepts which underpin it, places the research in the context of entrepreneurship as a discipline and Entrepreneurial Business Planning as an under-researched field, provides an overview of the research design and briefly summarises the contents of future chapters.

The research problem reported in this dissertation was to discover, to enhance, to test and to explore some of the implications of the Entrepreneurial Business Planning paradigm.

There were four major objectives: (1) to discover and articulate the existing Entrepreneurial Business Planning (EBP) paradigm (if one existed); (2) to develop an enhanced Entrepreneurial Business Planning paradigm; (3) to implement the prescriptions of the enhanced EBP paradigm in four field cases carefully designed to test paradigm efficacy; (4) to draw inferences from the particular to the general by employing cross-case analysis.

The three principal methodologies employed to meet the objectives were: (1) content analysis to discover and articulate the EBP paradigm; (2) grounded theory to enhance it; (3) case research to test it.

The chapter presents a research design map containing a structural overview of the entire project in the form of a network of activities and methods designed to answer six linked questions.

A detailed definitional framework articulates the precise meanings applied to all concepts which are seminal to the research and culminates in a definition of the Entrepreneurial Business Planning paradigm - the core subject of the investigation.

A very brief summary of all pending chapters is provided.
1.1 RESEARCH OBJECTIVES AND DESIGN

1.1.1 MOPPING-UP OPERATIONS: THE NATURE OF NORMAL SCIENCE AND THE ESSENCE OF THIS RESEARCH

In his groundbreaking essay, *The Structure of Scientific Revolutions*, Thomas Kuhn formally defines 'normal science' as meaning:

> 'research firmly based upon one or more past scientific achievements - achievements that some particular scientific community acknowledges for a time as supplying the foundation for its further practice.'

- (Kuhn 1970: 10).

This researcher works in a young social science: entrepreneurship. It is a discipline which, in many of its major sub-set fields, has not had time to overtly articulate paradigms which the scientific community of entrepreneurship scholars and practitioners might use as a foundation for further practice. One sub-set of the discipline, the field of Entrepreneurial Business Planning (EBP), suffers more obviously than most from the lack of an overtly-articulated, widely-agreed, generic paradigm. The field abounds with normative literature setting out prescriptions for the creation of a venture's Entrepreneurial Business Plan. However, the prescription writers have tended to operate in isolation rather than in concert. This is not solely to be regretted for the researcher's reason: that lack of an agreed paradigm hampers the conduct of 'normal science'. It is a cause for regret on very practical grounds. Writing and presentation of an Entrepreneurial Business Plan is so important to the success of any new venture that most new ventures will simply never achieve sufficient resources to commence operations unless the Entrepreneurial Business Plan has been successful in its primary task of convincing investors that the venture's potential rewards outweigh its actual risks by a margin sufficient to warrant supply of required investment. Yet, despite the seminal role which EBP plays in entrepreneurship practice and teaching and the abundance of purportedly definitive prescriptions on how to write a successful plan, the EBP field lacks the fundamentals for adequate research and the conduct of 'normal science'. It lacks an overtly-articulated paradigm supplying the basis for further practice. Scholars and practitioners in the field seem to operate on the implicit assumption that some kind of generic paradigm for Entrepreneurial Business Planning must or ought to exist but, prior to the
research reported in this dissertation, the existing paradigm (if it exists) has never been articulated or subjected to rigorous critique.

Kuhn (1970: 23-24) has likened the articulation, examination and enhancement of paradigms to 'mopping-up operations' and nominated the activity as the very essence of normal science.

'The success of a paradigm - whether Aristotle's analysis of motion, Ptolemy's computations of planetary position, Lavoisier's application of the balance of Maxwell's mathematization of the electromagnetic field - is at the start largely a promise of success discoverable in selected and still incomplete examples. Normal science consists in the actualisation achieved by extending the knowledge of those facts that the paradigm displays as particularly revealing, by increasing the extent of the match between those facts and the paradigm's predictions, and by further articulation of the paradigm itself. Few people who are not actually practitioners of a mature science realize how much mop-up work of this sort a paradigm leaves to be done or quite how fascinating such work can prove in the execution. And these points need to be understood. Mopping-up operations are what engage most scientists throughout their careers. They constitute what I am here calling normal science.'

Though it is a very ancient economic phenomenon, entrepreneurship is not a 'mature science'. It is as recently as 1989 that the American Academy of Social Sciences formally admitted entrepreneurship as a distinct discipline. It is scarcely surprising that paradigms for the discipline as a whole and for various subsets of it are still in their nascent stages. With regard to paradigm establishment and operation, the practice of 'normal science', and the creation of successful new ventures, it is the field of Entrepreneurial Business Planning (EBP), - sometimes called 'Venture Planning' - that has always been of particular interest to this entrepreneurship researcher. This is because the researcher is also a teacher and, at the very heart of all the formal teaching of entrepreneurship that exists in the world, is a nearly universal emphasis on the importance of teaching a student how to create an Entrepreneurial Business Plan (EBP). This requires a text book or a substantial portion of a text book or some other written authority sanctioned by the teacher to lay down a model for
the creation of the Entrepreneurial Business Plan. So fast has the normative EBP literature grown that Professor Vesper calls it 'countless'.

In contrast to the attention given to it in teaching entrepreneurship, the EBP field has received almost no formal research attention. Until the advent of the research contained in this dissertation, what had not been established or even enquired into is whether the EBP literature contains, at its essence, a set of core Entrepreneurial Business Planning prescriptions which merit the title 'paradigm' and, if so, some assessment of the strengths and weaknesses of that paradigm. Whether any one of these particular models or some essential ingredients distilled from all of them constitute an EBP paradigm is not a trivial question. If there is no paradigm and any EBP prescription is as good as any other, then the field and by implication the 'discipline' which contains it are not really a social science 'field' and a social science 'discipline' at all (in the sense of being valid spheres for the attention of a scientific community) but merely labels for inconclusive discourse.

The research reported in these pages involves a multi-method process of paradigm discovery, enhancement and testing - the un-glamourous but necessary 'mop-up work' described by Thomas Kuhn, in a field where practitioners are plentiful but researchers are scarce. It was motivated by the author's hope that, in one of its most important fields, a young social science could be made more mature by an endeavour embracing three integrated 'mopping-up' operations:

first, a detailed, quantified, content analysis and evaluation of the hitherto un-critiqued and seemingly random body of EBP literature;

second, discovery and articulation of an EBP paradigm suspected (and later confirmed) to be weak and fraught with errors;

third, enhancement (through logical critique and grounded theory) and testing (through case research and participatory action research) of the paradigm to develop its implications for the improved practice of 'normal science' in a major field of the entrepreneurship discipline.

This thesis reports that endeavour.
1.1.2 RESEARCH PROBLEM, DESIGN AND KEY OBJECTIVES

The research problem reported in this dissertation was first to discover, then to enhance and then to explore some of the implications of the Entrepreneurial Business Planning paradigm. The quest embraced four major objectives:

(1) to discover and articulate the existing Entrepreneurial Business Planning (EBP) paradigm (if one existed);
(2) to develop an enhanced Entrepreneurial Business Planning paradigm;
(3) to implement the prescriptions of the enhanced EBP paradigm in four field cases carefully designed to test paradigm efficacy;
(4) to draw inferences from the particular to the general by employing cross-case analysis to generate four outcomes:
   (4-1) a test of the efficacy and utility of the enhanced EBP paradigm;
   (4-2) a means of further enhancing the EBP paradigm;
   (4-3) a broadening of the operational range of business situations covered by the paradigm;
   (4-4) an indication of directions for future research.

One of the necessities in reporting upon a complex, multi-disciplinary and multi-method research endeavour is the need to provide a reader with an overview of the total process before immersed in a welter of detail obscures the fundamental integrity of the research design. Exhibit 1-1, on the facing page, does this.

The exhibit may be called the 'research design' map. The oversimplifications which are its weaknesses are offset by the one-page clarity which is its strength. Appropriate methodological detail and formalism are provided, as appropriate, in subsequent chapters of the dissertation. At the level of overview, the research design map presents the research problem as a series of six linked questions, summarises the research activities and methods required to answer them and indicates where, in the body of the thesis, specific activities are addressed in detail.
## EXHIBIT 1-1
### RESEARCH DESIGN MAP

<table>
<thead>
<tr>
<th>RESEARCH QUESTIONS</th>
<th>RESEARCH ACTIVITIES</th>
<th>RESEARCH METHODS SUMMARY</th>
<th>THESIS LOCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RESEARCH PROBLEM SUMMARY</strong></td>
<td>Can the EBP paradigm be enhanced, tested and applied to improving both specific entrepreneurial and general managerial performance?</td>
<td>Discovering, testing and applying an enhanced paradigm of Entrepreneurial Business Planning (EBP).</td>
<td>A structured mixture of qualitative and quantitative research techniques required for an integrated solution to a multi-faceted problem.</td>
</tr>
<tr>
<td>Q1</td>
<td>Can an analytical framework for investigating EBP be established?</td>
<td>Definition and categorization.</td>
<td>Employ definition of key concepts, planning theory and logic to develop a comprehensive analytical framework.</td>
</tr>
<tr>
<td>Q2</td>
<td>Is there an existing paradigm of entrepreneurial business planning?</td>
<td>Discovery, description and classification of the existing paradigm.</td>
<td>Formal Content Analysis of the EBP literature.</td>
</tr>
<tr>
<td>Q3</td>
<td>What are the strengths and weaknesses of the existing paradigm?</td>
<td>Critique of the existing paradigm.</td>
<td>(1) Experiential performance evaluation (grounded theory). (2) Logical critique. (3) Application of planning theory.</td>
</tr>
<tr>
<td>Q4</td>
<td>Can the existing EBP paradigm be enhanced?</td>
<td>Paradigm building.</td>
<td>(1) Grounded Theory. (2) Logical Critique. (3) Theory Application.</td>
</tr>
<tr>
<td>Q5</td>
<td>Can the enhanced paradigm be applied and tested?</td>
<td>Case application and testing.</td>
<td>(1) Case Research. (2) Participatory Action Research. (3) Financial Modelling.</td>
</tr>
<tr>
<td>Q6</td>
<td>Can the enhanced EBP paradigm extend the relevance and utility of the discipline of entrepreneurship?</td>
<td>Implications of the research. Generation of corollary theories.</td>
<td>Inferential argument from case research.</td>
</tr>
</tbody>
</table>
1.2 DEFINITIONAL FRAMEWORK

1.2.1 PRELIMINARY: THE QUEST FOR AN EBP PARADIGM

It is the author's contention that the community of entrepreneurship scholars, practising entrepreneurs and most importantly of all, would-be entrepreneurs, need an EBP paradigm. They need a set of broad practical prescriptions based on sound theoretical principles used as a guide to production of effective and efficient plans for new ventures.

Entrepreneurial Business Planning is the midwife of new ventures. Without EBP, new ventures are likely to be stillborn through lack of ability to attract vital physical and financial resources. Without a viable EBP paradigm, aspiring entrepreneurs will have great difficulty in discriminating between a poor plan and a good one and entrepreneurial scholars will lack a basis for well-structured research. As an integral part of the paradigm, there is a need for a tenable, well-grounded theory of Entrepreneurial Business Planning. The main purpose of this EBP theory will be to provide reasons for what is prescribed to be done in the practical prescriptions of the paradigm: to add a philosophical and evidential 'why' to normative and pragmatic 'how to'. Without a clear statement of theory and practice - together providing a paradigm - the dicta of every old and new author on EBP are at risk of degenerating into a potpourri of inconclusive discourse. This is an undesirable state of affairs for subject matter that is at the heart of the success or failure of new venture creation - the core entrepreneurial activity which gives the discipline of entrepreneurship its raison d'etre.

However, before launching into the quest for the existing EBP paradigm and an attempt to enhance it, a network of fundamental definitions must be established:

1. a definition of 'entrepreneurial process';
2. a definition of 'planning';
3. a definition of 'Entrepreneurial Business Planning';
4. a definition of 'paradigm';
5. a definition of 'The Entrepreneurial Business Planning Paradigm'.
1.2.2 DEFINING ENTREPRENEURIAL PROCESS:
BYGRAVE AND HOFER'S 9-POINT PARADIGM

This dissertation employs Bygrave and Hofer's trinity of linked definitions which culminate in a 9-point agenda which can be used to classify whether processes are 'entrepreneurial' or not. (Bygrave and Hofer 1991).

'An Entrepreneurial Event involves the creation of a new organisation to pursue an opportunity'.

'The Entrepreneurial Process involves all the functions, activities and actions associated with the perceiving of opportunities and the creation of organisations to pursue them'.

'An Entrepreneur is someone who perceives an opportunity and creates an organisation to pursue it'.

Further investigation of the entrepreneurial process reveals that it has nine defining parameters.

(1) It is initiated by an act of human volition.
(2) It occurs at the level of the individual firm.
(3) It involves a change of state.
(4) It involves a discontinuity.
(5) It is a holistic process.
(6) It is a dynamic process.
(7) It is unique.
(8) It involves numerous antecedent variables.
(9) Its outcomes are extremely sensitive to initial conditions of these variables.

'Taken together, these characteristics create a set of parameters and criteria that will have to be met by any "ideal" model of entrepreneurship.' (Bygrave and Hofer 1991: 17).

Bygrave and Hofer go on to demonstrate how difficult it will be to obtain a paradigm of entrepreneurship in toto.

The important implications of Bygrave and Hofer's definitional work for this research is that, if there is to be an ideal model - i.e. a paradigm - of that
subset of entrepreneurship called Entrepreneurial Business Planning, the entrepreneurial process parameters simultaneously define its contextual boundaries and establish the level of generality at which it must operate.

1.2.3 STEVENSON'S RESOURCE-AND-BEHAVIOUR FOCUSED DEFINITION OF ENTREPRENEURSHIP AND THE CENTRAL IMPORTANCE OF EBP

In common with Bygrave and Hofer, Stevenson thinks of entrepreneurship as a behavioural approach to management but defines it with a greater emphasis on resource control.

'From our perspective, entrepreneurship is an approach to management that we define as follows: the pursuit of opportunity without regard to resources currently controlled.'

(Stevenson, Roberts and Grousbeck 1994: 5)

The implications of this approach are explored by contrasting an entrepreneurial or 'promoter' behavioural approach to management with the traditional or 'trustee' approach across six dimensions: strategic orientation; commitment to opportunity; commitment of resources; control of resources; management structure; and compensation/reward structure. Stevenson and his colleagues build an entire text-and-cases instructional book - a book upon which this researcher, among many teachers of entrepreneurship throughout the world, bases a post-graduate course in new venture evaluation and financing - around this potent and fruitful approach to the creation and development of new business ventures by entrepreneurs. However, the core importance of the Stevenson behavioural definition to this research is twofold.

(1) It adds crucial substance to Bygrave and Hofer's somewhat truncated definition of the entrepreneur as an opportunity perceiver and organisational creator by distinguishing the key managerial behavioural characteristics which make both activities entrepreneurial as distinct from custodial.

(2) It establishes the central importance of Entrepreneurial Business Planning to the discipline and practice of entrepreneurship.

Because the essence of entrepreneurial behaviour is the pursuit of opportunity despite resources currently controlled, yet as in all human
endeavour the resource conditions the feasible, it follows that the an Entrepreneurial Business Plan, the paramount device which enables the entrepreneur to secure required resources by convincing investors of the value of the returns flowing from their acquisition, is of central importance to the entrepreneurial process.

This proposition is strongly stated:

'A business plan is a document that articulates the critical aspects, basic assumptions, and financial projections regarding a business venture. It is also the basic document used to interest and attract support - financial and otherwise - for a new business concept.'

(Stevenson, Roberts and Grousbeck 1994: 64)

Most other established teachers of entrepreneurship agree. Every volume purporting to be a textbook in the discipline has its chapter or section on Entrepreneurial Business Planning.

In summary, entrepreneurship is a managerial process of opportunity realisation through a creative approach to resource control. The Entrepreneurial Business Plan is the entrepreneur's major device for defining and obtaining a new venture's required resources.

1.2.4 DEFINING "PLANNING" AS "STRATEGIC PROGRAMMING"

A necessary prelude to a more detailed examination of the specifics of Entrepreneurial Business Planning is an exploration of the concept of 'planning' itself. Adopting a definition of planning and the consequent perspectives about planning which flow from it are so fundamental to this research that they form its analytical framework and receive a chapter of their own, (chapter two, following).

Suffice it to say at this stage that the definition and perspectives on planning which infuse this research are those articulated by Henry Mintzberg in his book, The Rise and Fall of Strategic Planning Reconceiving Roles for Planning, Plans, Planners (Mintzberg: 1994). The essential defining statement of the Mintzberg perspective is contained on page 333:
'Organisations engage in formal planning, not to create strategies but to program the strategies they already have, that is, to elaborate and operationalize their consequences formally.'

Of critical importance to the Mintzberg definition of planning is the need to distinguish the roles of planning, plans and planners. These distinctions will be presented in chapter two, below.

1.2.5 DISTINGUISHING ENTREPRENEURIAL BUSINESS PLANNING FROM OTHER FORMS OF BUSINESS PLANNING

What distinguishes Entrepreneurial Business Planning (EBP) from all other forms of planning is:

(1) Its subject matter: it will be a programmed strategy for a new or newly conceived venture displaying adherence to the nine Entrepreneurial Process Parameters (presented, above, in section 1.2.3);

and

(2) The audiences for whom the plan is intended. There will be two audiences - external prospective investors and/or lenders (the prime defining audience) and internal personnel responsible for achieving the performance projected in the plan.

These contentions are fully supported by Timmons - (1994: 30) - who characterised entrepreneurial ventures as those possessed of four key ingredients:

- a talented lead entrepreneur with a balanced and compatible team;
- a technically sound and marketable idea for a product or service;
- thorough venture analysis leading to a complete business plan;
- appropriate equity and debt financing.

The emphasis on financing in the definition is most important and is a theme which will be expounded upon further in sections 1.2.6 and 2.1.1 below. All readers/users of Entrepreneurial Business Plans can be said to have one crucial thing in common: they use the information the plan contains to aid decision making about provision of resources to the venture. So, the target audience for an EBP consists of 'resource providers',
more specifically - since in a market economy business resources can be represented by dollar values and evaluated using the discounted cashflow techniques of capital budgeting - 'financial resource providers'. Thus, more simply still, the prime audience for an EBP is always an investor.

Naturally, an Entrepreneurial Business Plan, while retaining the same core content, may take very different forms and place different emphases on variables depending on whether its intended investor audience is: an employee (resources supplied - time, labour and the opportunity costs of alternative employment); a banker (resource supplied - debt capital); a prospective equity investor (resource supplied - venture capital) or whatever. But it remains true that, regardless of their shape or form, an EBP is written for an audience of potential investors.\footnote{1}

Given the nature of the entrepreneurial process and the determination of an investor audience, we are now in a position to proceed to a definition of Entrepreneurial Business Planning.

1.2.6 THE AUTHOR'S DEFINITIONS OF ENTREPRENEURIAL BUSINESS PLANNING AND AN ENTREPRENEURIAL BUSINESS PLAN

Employing the categories of the entrepreneurial process defined by Bygrave and Hofer, the emphases supplied by Stevenson, the boundaries defined by Timmons and the concepts of planning employed by Mintzberg, the author offers the following definitions which will be fundamental to the research espoused in this dissertation:

*Entrepreneurial Business Planning (EBP) is the process of convincing investors of the desirability of investing in a new venture by articulating and programming the economic consequences of a strategy which determines relevant antecedent variables, expresses them in holistic relationship and subjects them to sensitivity analysis in order to maximise the probability of a desired change of state.*

*'An Entrepreneurial Business Plan is the formal argument used to secure, from prospective investors, resources required for a proposed entrepreneurial process.'*

\footnote{1 This argument is expanded in section 2.1.1 of the following chapter.}
The author believes that a discussion of the derivation, implications and possible criticisms of these definitions is better left to the chapter on analytical frameworking of the research. However, readers wishing to enjoin these issues at this point might now care to refer to section 2.1.1, below.

1.2.7 THE AUTHOR'S "RESEARCHER" DEFINITION OF A PARADIGM.

As a preliminary step in the chain of argument leading to a definition of an EBP paradigm, the author offers the following general definition.

'A paradigm is a "model of models". It consists of the irreducible minimum set of combined principles - theoretical and practical - upon which scholars in a discipline both agree and rely for the conduct of research capable of furthering the knowledge of that discipline and implementation capable of producing a desired outcome in the practical world'.

This definition results from an amalgam of the approaches to the concept of a paradigm of Kuhn (the pioneer expositor of the importance of paradigms to the practice of science), Barker (an exponent of paradigm-based thinking as a means for business planners to anticipate the future) and Chalmers (a philosopher of science). Their definitions will now be briefly explored.

1.2.8 KUHN'S "NORMAL SCIENCE" DEFINITION OF A PARADIGM.

The man responsible for initiating constructive debate on the importance of paradigms to the conduct of scientific enquiry, focused on two characteristics of approaches to scientific fields. Kuhn's first characteristic was that a paradigmatic approach (which Kuhn calls an 'achievement') had to be 'sufficiently unprecedented to attract an enduring group of adherents away from competing modes of scientific activity. Kuhn's second characteristic was that a paradigmatic approach had to be sufficiently open-ended to leave all sorts of problems for the redefined group of practitioners to resolve.' (Kuhn 1979: 10). These twin characteristics of 'achievements' are at the heart of his definition:
'Achievements that share these two characteristics I shall henceforth refer to as "paradigms" a term that relates closely to "normal science". By choosing it, I mean to suggest that some accepted examples of scientific practice - examples which include law, theory, application, and instrumentation together - provide models from which spring particular coherent traditions of scientific research.' (Kuhn 1970: 10).

1.2.9 BARKER'S 'BUSINESS FOCUSED' DEFINITION OF A PARADIGM

In a book centred on enhancing businesses' ability to anticipate and plan for the future, Barker (1992) - deriving his insights very substantially from Kuhn (1970) - provides an extremely succinct and actionable definition of a paradigm.

'A paradigm is a set of rules and regulations (written and unwritten) that does two things: (1) it establishes or defines boundaries; and (2) it tells you how to behave inside the boundaries in order to be successful.' (Barker 1992: 32).

1.2.10 CHALMERS' 'PHILOSOPHER OF SCIENCE' DEFINITION OF A PARADIGM

In a book dedicated to answering the question - 'What is this thing called science?' - Chalmers provides a short denotation which encompasses three major connotations.

'A paradigm is made up of the general theoretical assumptions and laws and techniques for their application that members of a particular scientific community adopt'. (Chalmers 1984: 90).

From this definition, it follows that there are three keys to understanding the complex nature of a paradigm:

1. its generic power and range;
2. its blend of both theoretical and practical elements;
3. its combination of normative ('ought to'), nomothetic ('must do') and didactic ('how to') prescriptions.

Determination of the mandatory components of an EBP paradigm is facilitated by a discussion of these three key generic concepts.
1.2.11 MANDATES FOR A SPECIFIC EBP PARADIGM

As is evident from previous exposition, all definers of this difficult concept conceive of 'a paradigm' as being, essentially, an 'ideal model' - a kind of precise but adaptable template.

*Generic power and range* is what makes a paradigm the 'ideal' model rather than just 'another' model. To achieve 'ideal' status, a set of prescriptions must be simultaneously broad in scope but narrow in focus to the smallest number of issues relevant to the total range of cases pertinent to a given field. In this sense, a paradigm is a 'model of models'. An important question is: how many cases must a model cover (or how big must a field be) before a 'model' is 'ideal' enough to be worthy of the name 'paradigm'? Scholars tend to associate the word paradigm with very large fields of endeavour. For instance, there is talk of the 'scientific' paradigm (covering the entire field of scientific endeavour) or the 'Sociological' or 'Entrepreneurship' paradigms (covering the range of entire disciplines). This author contends that the issue of generic power and range in qualifying a model as a paradigm is not about how big the field is but how thoroughly it is covered. In other words, if one were to take a very large field and to posit a set of prescriptions which failed to apply to the whole field, those prescriptions would not amount to a paradigm - no matter how sweeping and elegant the model embodying those prescriptions. On the other hand, if one took a very small field and posited a set of prescriptions which did apply to all of it, those prescriptions *would* constitute a paradigm, no matter how small and inelegant the model embodying them might be.

Thus it *is* possible to search for a paradigm of Entrepreneurial Business Planning, a subset of a discipline which itself has, as yet, no paradigm. (Bygrave and Hofer 1991 and 1992: *passim*).

In the field of Entrepreneurial Business Planning there is a collection - almost a random collection - of non-paradigmatic models. A key task of this author's research is to seek among them for common prescriptions capable of (or claimed to be capable of) universal application to any and every venture seeking to produce an Entrepreneurial Business Plan. It is these common prescriptions which will constitute the EBP paradigm, if it exists.
The blend of both theoretical and practical elements is an inescapable requirement when investigating Entrepreneurial Business Planning. It is easy to see that an EBP theory would mean nothing in isolation from a discussion of practical, implementation prescriptions. Because Entrepreneurial Business Planning is, by its very nature, an applied field, no theory of it can exist for its own sake or have any meaning in the absence of discussing practice. It is harder to see that no set of practical prescriptions can have much claim to either validity or generality in the absence of theory. Indeed, failure to perceive the value of theory is at the heart of what is wrong with the current status of EBP as a field of study. A literature consisting almost entirely of self-contained 'how to' prescriptions, with very little attention paid to 'why' engenders two undesirable phenomena.

First, the lack of theoretical co-ordination, cross-referencing and critique tends to excuse an attitude which argues that 'one set of prescriptions is as good as another' because there is no such thing as a guideline, groundrule, framework, or agreed criterion for judging between them. This environment becomes self-perpetuating as any would-be author can feel free to write another sui generis prescription saying, 'do it my way', without having to justify the rectitude of 'my way'. This increasingly turbulent environment then engenders the second undesirable consequence: it may repel or elude many potential scholars. At first glance, a realm inhabited by authors who write titles such as "How To Kiss A Princess: The Secret Art Of Business Plans That Sell" scarcely seems the place to find peer credibility through scholarly rigor.

Thus is obtained the undesirable situation where the sub-discipline of Entrepreneurial Business Planning desperately needs a viable paradigm but entrepreneurial scholarship does not even know whether any paradigm - viable or not - exists. Worse, the problem seems to be self-perpetuating. The very lack of an EBP theory - plus the inability to disentangle it from the escalating practical prescriptions literature - has made it increasingly likely that EBP will ever obtain a coherent theory as part of a viable paradigm.
1.2.12 THE AUTHOR'S DEFINITION OF THE ENTREPRENEURIAL
BUSINESS PLANNING (EBP) PARADIGM.

'The Entrepreneurial Business Planning Paradigm (if it exists) is the set
of combined principles and prescriptions - both theoretical and practical
- upon which scholars and practitioners in the discipline of
entrepreneurship both agree and rely to determine relevant antecedent
variables, express them in holistic relationship and subject them to
sensitivity analysis in order to articulate a program for maximising the
probability of a desired change of state affecting the totality of an
entrepreneurial venture.'

1.3 DOCUMENT DESIGN

1.3.1 PROJECT ANATOMY

A large, technical document such as a PhD dissertation can be very 'user
unfriendly' if the author becomes so singlemindedly focused on each
technical argument as it occurs that he forgets the reader's need for a clear
view of the linkages between all facets of the research and the ultimate
direction in which all arguments are heading.

The author does not pretend that this document is anything other than a
set of very technical arguments and has not been afraid to use technical
language where it is appropriate to do so (which is often). However, the
author of the thesis has made every endeavour to lighten the reader's
burden in following a long sequence of diverse methodological procedures
and their results by being equally unafraid to use the plainest and least
'jargony' of English and the clearest mode of exposition wherever he could.

What might be called the basic 'anatomy' of the research project is not hard
to describe.

The feet of the research stand upon the grounded theory of Glaser and
Strauss (chapter four). The vertebrae of its structure - i.e. the theoretical
component of its analytical framework - are the concepts infusing
Mintzberg's model of planning, plans and planners (chapter two). Its brain
is the enhanced paradigm itself - an organ whose directive ability evolved
from beginnings in the content analysis methodology of Krippendorf and
Carney (chapter three). Its limbs are provided by a financial model called
FIPRAL (chapter 4) - especially built by the author as the prime instrument to give motive power to the enhanced EBP paradigm. Finally, the heart of the thesis is case research (chapter six) - conducted according to the rigorous methodological prescriptions of Robert Yin (chapter five).

1.3.2 SUMMARY OF PENDING CHAPTERS

Chapter two presents an analytical framework. It provides both contextual environment and directional guidelines for research into discovery and enhancement of the EBP paradigm.

Chapter three reports a research process which discovered two things:

1. there is a prevailing EBP paradigm;
2. its principles (both a priori assumptions and derived theory) and practical prescriptions are badly flawed.

Chapter four performs the work which gives this research its title: it enhances the EBP paradigm.

Chapter five outlines the methods and chapter six contains the results of case research designed to test the efficacy of this enhanced EBP paradigm. The corollary result of the testing procedure is the further enhancement of the paradigm.

Finally, chapter seven discusses further applications and some significant implications of the enhanced EBP paradigm.

The table of contents documents chapter material down to the third subheading and therefore provides quite a detailed overview of the dissertation and a useful 'skimming aid' for the reader who wishes to 'home in' on or cross-reference specific topics and issues.
NOTE

The pagination of this thesis has been organised so that the pages can be printed double-sided.

As a result, there were blank pages at the end of some chapters, so that the first page of a new chapter always appeared on the page that faced up.

These blank pages are missing from this version of the thesis.

The pages involved are: vi, 32, 128, 302, 326, 224 and 344.
CHAPTER ABSTRACT

Mintzberg provides a model derived from case research into an entrepreneurial firm and emphasising primacy (though not exclusivity), in the planning motives of entrepreneurial firms, of two things: (1) an appeal to external audiences whose needs are (2) primarily for financial information. The Mintzberg model can be synthesised with a compendium of paradigm definitions to provide an analytical framework for investigating the Entrepreneurial Business Planning paradigm.

In Mintzberg's model, the roles of planning, plans and planners must be carefully distinguished from one another and never confused with the separate and predicing process of strategy formulation. **Planning** has one role, strategic programming, which is achieved in three steps: codifying, elaborating and converting. **Plans** have three roles. They are: communication media; control devices and simulation mechanisms. **Planners** have three primary roles: finders of strategy; analysts and catalysts. Arranging the relationships between the roles produces a generic, procedural, planning process model. When this planning process model is synthesised with the definitions of 'paradigm' provided by Kuhn, Barker, Chalmers and Hindle the result is an analytical construct in the form of a four-by-three matrix.

This construct is a tool possessing both theoretical and practical utility. It provides a comprehensive analytical framework for cataloguing, describing, critiquing and operationalising the components and relationships which combine to comprise an Entrepreneurial Business Planning paradigm.
2.1 'THEORETICAL' VERSUS 'ANALYTICAL' FRAMEWORKING

2.1.1 TYPICAL USE OF A THEORETICAL FRAMEWORK

The typical theoretical framework (if such there be) for a research project is an efficiency mechanism. It provides a perspective: an intellectually justified way of viewing the phenomena which the researcher seeks to investigate. For instance, there is an infinity of possible ways of viewing the venture capital industry. In his PhD dissertation (1988), Bygrave chose a perspective which employed a development of Pfeffer and Salancik's resource exchange model. Regarding the Venture Capital industry as an arena for potential resource exchanges, amenable to description according to the variables of the resource exchange model, facilitated a systematic research process. In general, time will not permit an investigator to 'cover all angles'. To make research manageable within a limited span of time as well as a systematic and comprehensive endeavour, the researcher can benefit by locating the problem and the data in a framework of proven descriptive and explanatory power.

2.1.2 ANALYSIS COMBINES 'SEEING' AND 'DOING'

One can't trap a quarry if one hasn't built a cage. And the type of cage which must be built depends upon the type of beast to be captured. Before the quest for the possible existence of a prevailing EBP paradigm can productively begin, the searcher needs a framework - but it must be more than a theoretical framework.

By definition, a paradigm involves a combination of theory and practice. So, at the risk of pedanticism, it is by definition that a theoretical framework will not suffice as a paradigm investigation mechanism. This research problem embraces both theory - a quest for the best explanation of the known facts - and practice - a quest for success rules leading to optimal implementation. So, this research's frameworking task must go beyond seeing (achieving a view of the world provided by a theoretical framework) to doing (achieving a regime for action provided by a set of practitioner prescriptions). For want of any better name (but in recognition of the need to stress doing as well as seeing), the author calls the construct about to be developed an analytical framework. It will be built by combining selected precepts of Mintzberg's model of planning, plans and planners with the core mandates required for an operational definition of a paradigm.
2.2 MINTZBERG'S MODEL OF PLANNING, PLANS AND PLANNERS

2.2.1 DERIVATION: CASE ANALYSIS OF AN ENTREPRENEURIAL FIRM

As the current culmination of a working lifetime spent in the field of strategic analysis, Henry Mintzberg (1994) has produced a book dedicated to reconceiving roles for planning, plans and planners. A seminal element in the production of Mintzberg’s concepts and general model resulted from his and Water’s case analysis of a large, entrepreneurial supermarket chain. This research was first published in the Academy of Management Journal in 1982 under the title ‘Tracking Strategy in an Entrepreneurial Firm.’ They found that planning was introduced to satisfy an external (rather than an internal) need of the organisation and, more particularly, it was the need to articulate financial projections to capital markets.

In anticipation of both the final section of this chapter (see, below, section 2.3.3), and the communication rules in his enhanced EBP paradigm (see, below, section 4.5), the author of this research draws readers’ closest attention to Mintzberg’s emphasis upon the primacy, in the planning motives of entrepreneurial firms, of two things:

(1) an appeal to external audiences ...

(2) whose needs are primarily for financial information.

This aspect of Entrepreneurial Business Planning is the key to this author’s definitions of Entrepreneurial Business Planning and the Entrepreneurial Business Plan. They were introduced, above, in section 1.2.6, and are repeated, below, for the convenience of readers following the arguments of this chapter.

‘Entrepreneurial Business Planning (EBP) is the process of convincing investors of the desirability of investing in a venture by articulating and programming the economic consequences of a strategy which determines relevant antecedent variables, expresses them in holistic relationship and subjects them to sensitivity analysis in order to maximise the probability of a desired change of state.’
'An Entrepreneurial Business Plan is the formal argument used to secure, from prospective investors, resources required for a proposed entrepreneurial process.'

The author is aware of a risk that some may think his definition of EBP is too narrow and too financially oriented. Before advancing this criticism, commentators should be aware not only of the pedigree of this view - twelve years of research by Mintzberg and colleagues - in particular Mintzberg and Water's 1982 publication, 'Tracking Strategy in an Entrepreneurial Firm.' Academy of Management Journal (xxv, 3, 1982: 469-499) - but that this author has the highest respect for views which mandate vision and strategy as the prime determinates of entrepreneurial success. Only a combination of vision and strategy can holistically integrate a vast array of technical (product-and-process-related functions), marketing (external environment) and organisational (internal socio-technical system) variables into a unique, fully-functional business concept with a distinctive competitive advantage. The author fully agrees that the document called an 'Entrepreneurial Business Plan' must, inter alia, fully describe the vision and strategy as well as articulating its financial consequences. Even the most casual perusal of the three business plans and one acquisition evaluation (see chapter six, below) which form the case components of his research will confirm this. However, as Mintzberg and Water's (1982) seminal research indicates, the process of 'Entrepreneurial Business Planning' is quite distinct from the process of strategy creation. For the EBP paradigm investigator, strategy can be taken as a given thing - something to describe and whose consequences (particularly financial) must be articulated, but not something to be created. He can agree with Mintzberg and Water's (1982: 498):

'... companies plan when they have intended strategies, not in order to get them. In other words, one plans not a strategy but the consequences of it. Planning gives order to vision, and puts form on it for the sake of formalized structure and environmental expectation. One can say that planning operationalizes strategy'.  

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1 Recent developments in formal theorizing about strategy have replaced the once well-entrenched notion of 'structure follows strategy' with the concept of 'process follows purpose'. See, for example, Bartlett and Ghoshal 1994: passim. This shift in emphasis is totally compatible with the concept that plans exist to articulate the consequences of strategy rather than being part of the process of creating it.
2.2.2 THE CONTEXT OF THE MINTZBERG MODEL: DEMONSTRATING FALLACIES OF THE 'STRATEGIC PLANNING SCHOOL'

Mintzberg's primary mission in writing his book (1994) was not to produce a model of planning, plans and planners for its own sake, but to clearly distinguish the concepts of 'strategy' and 'planning' - concepts which, he argues, have spent too long and too confused a time entwined together in the notion - amounting to a school - of 'strategic planning'. The book's full title and subtitle, *The Rise and Fall of Strategic Planning Reconceiving Roles for Planning, Plans, Planners*, indicates that Mintzberg's reconception of planning takes second place to his primary emphasis on exposing what he considers to be the fallacies of the theory and practice of activities collectively known as 'strategic planning'. Obviously, for this author and his research, the emphases are reversed and only the very briefest summary of Mintzberg's exposition of critique of 'the fallacies' is required, as a means of indicating the context in which Mintzberg developed his planning model.

Mintzberg (chapter 5) argues that the 'strategic planning' approach to strategy formulation, involves three 'fundamental fallacies', those of: predetermination; detachment; and formalization. The result of critiquing 'the fallacies' is the revelation that strategy cannot be formulated by planning. Accordingly, many of the methods and arguments of the school known as 'strategic planning' - and its adherents - fall to the ground. This results in the quintessential, defining statement of the Mintzberg perspective on planning:

'Organisations engage in formal planning, not to create strategies but to program the strategies they already have, that is, to elaborate and operationalize their consequences formally'. - (Mintzberg 1994: 333)

2.2.3 CONTENT: A MODEL OF PLANNING, PLANS AND PLANNERS

Exhibit 2-1 (originally figure 6-7 of Mintzberg 1994: 392) is a schematic representation of Mintzberg's model of the elements and relationships linking planning, plans and planners. The diagram provides a vivid, nearly self-explanatory, illustration of the key elements of Mintzberg's planning-plans-planners process model and the integrated flow of activities which connects them. The roles of 'planning', 'plans' and 'planners' must be carefully distinguished. Planning has one role, strategic programming,
which is achieved in three steps: codifying, elaborating and converting. Planning operationalises a given strategy - it does not create a new strategy. The outcome of planning is a plan which has three roles: communication medium; control device and simulation mechanism. Planners have three major roles: finders of strategy, analysts and catalysts. For planning and plans, the 'black box' of strategy formulation is taken as given. The planner may or may not have been involved in strategy formation, but that is irrelevant to planning and the production of plans. Planning as a process and plans as process outcomes can only commence subsequent to a strategy having been formulated or 'found'. Simulations (feeding alternate data into a plan's information evaluation instruments) may or may not be useful in amending strategy, but the essential feature of the model is its insistence that planning is conceptually distinct from, and subsequent to, strategy formulation.

EXHIBIT 2-1
MINTZBERG'S MODEL OF PLANNING, PLANS AND PLANNERS

A brief elaboration of roles and relationships follows.

• The one role of planning


'Planning helps to translate intended strategies into realized ones, by taking the first step that can lead to effective
implementation. We present this not as our first role for planning but as the only one. All other roles we shall discuss pertain to plans and planners but not to planning....Planning as programming is clearly decision making, or more exactly a set of coordinated decision processes evoked by the dictates of strategy. And it clearly involves future thinking, and often controlling the future as well - specifically the enactment of desired endpoints."

Whereas there is an entire body of literature (the strategic planning school) which sees 'planning as programming' as only one, narrow aspect of planning, in the Mintzberg model, 'planning as programming' is the totality. Achievement of this single role - developing the program - involves three steps.

First, Mintzberg (following Hafsi and Thomas 1985: 32-37) stresses the key codifying attributes of planning: to make all implicit assumptions explicit; to consider all major hurdles; to 'take everything relevant into account' and to uncover and eliminate all inconsistencies.

'Planning thus brings order to strategy, putting it into a form suitable for articulation to others ....' (Mintzberg 1994: 337).

Second, elaboration of strategy is the decomposition of the codified strategy into a three-part hierarchy: substrategies; ad hoc programs and specific action plans. The result (quoting Katz 1970: 356) is:

'... a timed sequence of conditional moves in resource deployment'.

The final step - converting the elaborated strategy - involves proceeding from arrangement (of strategic hierarchies) to performance (establishing budgets and control mechanisms).

• The three roles of plans

The clarity of Mintzberg's exposition of his model (though not the cogency of his arguments) suffers somewhat when he writes about the roles of a plan. The main body of his text in this regard (Mintzberg 1994: 351-361)
states that there are two roles for plans: communications media and control devices.

'Plans, as communications media, inform people of intended strategy and its consequences. But as control devices they go further, specifying what behaviours are expected of particular units and individuals in order to realise strategy, and then being available to feed back into the strategy making process comparisons of these expectations with actual performance'.

Only later, while discussing the role of planners as analysts, does he present the third role for plans (377):

'Plans, especially in the operational form of budgets, can be used to consider the impact of possible changes on the organisation's current operations, including the testing of new strategies (e.g. Channon 1979: 125). In other words, plans can feed back into the strategy making process and so find a third role for themselves in the organisation, namely as simulations (although this would seem to be less common than the roles of communication and control)'.

- The several roles of planners

Mintzberg (361) argues:

'Our contention is that many of the most important roles played by planners have nothing to do with planning or even plans per se. We discuss here three such nonplanning roles of planners: as finder of strategies, as analyst and as catalyst ...'

Since (1) the focus of this research is limited to planning and plans per se, and (2) the empirical, logical and modelling components of Mintzberg's

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2 One can almost see the evolution of Mintzberg's thought development in these two passages, separated though they are by sixteen pages. The key linking concept is 'feedback'. All control systems feature feedback. So, it is not inconceivable to regard certain simulations as part of the feedback (and hence control) process. However, a great many simulations transcend feedback and feature feed new - i.e. the input of new data based on an alternative strategy. His final position is to distinguish simulation as a third major role for plans. It is hoped that, in a second edition of the book, exposition on the three roles of plans may be improved by presenting them in an integrated rather than fragmented manner.
work are complete without reference to his 'contentions' on planners' roles, this researcher has no need to evaluate or incorporate Mintzberg's contentions on the nonplanning roles of planners into his analytical framework or research design.

2.2.4 RELEVANCE TO EBP RESEARCH

As discussed in section 2.1.1, above, it was a case study of a particular entrepreneurial firm which was seminal to the generation of Mintzberg's general all-business-types model of the planning process. This author will, in his turn, now take that general model and adapt it to the particular field of Entrepreneurial Business Planning.

This is a classic illustration of the importance of the concept of "RE-" in the practice and development of "REsearch". It is also indicative of the appropriateness of the Mintzberg planning process model as a framework for the research which this dissertation reports.

2.3 SYNTHESIS: AN ANALYTICAL FRAMEWORK FOR INVESTIGATING THE EBP PARADIGM

2.3.1 FRAMEWORK INGREDIENTS: A CONCEPTUAL SYNTHESIS OF MINTZBERG AND THE PARADIGM EXPOSITORS

Section 1.2, above presented and discussed the following four definitions provided by several paradigm expositors.

Kuhn:

'[Paradigm is] a term that relates closely to "normal science". By choosing it I mean to suggest that some accepted examples of scientific practice - examples which include law, theory, application, and instrumentation together - provide models from which spring particular coherent traditions of scientific research.' - (Kuhn 1970: 10).

Barker:

'A paradigm is a set of rules and regulations (written and unwritten) that does two things: (1) it establishes or defines
boundaries; and (2) it tells you how to behave inside the boundaries in order to be successful.' (Barker: 1992, 32).

Chalmers:

'A paradigm is made up of the general theoretical assumptions and laws and techniques for their application that members of a particular scientific community adopt'. (Chalmers 1984: 90).

Hindle:

'A paradigm is a "model of models". It consists of the irreducible minimum set of combined principles - theoretical and practical - upon which scholars in a discipline both agree and rely for the conduct of research capable of furthering the knowledge of that discipline and implementation capable of producing a desired outcome in the practical world'.

An appropriate analytical framework for investigating any planning paradigm (whether the 'planning' be qualified as 'entrepreneurial business' or not) may be developed by combining the essential elements of these definitions of paradigm with the essential elements of Mintzberg's planning process model. The general analytical framework can be specifically focused upon Entrepreneurial Business Planning by the simple expedient of defining appropriate boundaries.

2.3.2 DEVELOPING AND DESCRIBING THE ANALYTICAL FRAMEWORK

Three steps will lead to the production of a framework capable of providing a comprehensive, systematic description of the EBP paradigm.

First Step: synthesise and utilise the perspectives of all the paradigm expositors.

A comprehensive statement of any paradigm can be organised and described under five classification areas:

(1) boundaries;
(2) laws;
(3) success rules;
(4) instrumentation;
(5) theory.

At this point it behoves the author to distinguish the two nomothetic concepts: 'law' and 'success rule'. It is fundamentally a distinction between the mandatory and the optional. A law is a rule recognized by a community as binding. Laws circumscribe. They are closely related to boundaries because non-conformity with the law puts one beyond the pale of the community. On the other hand, success rules, as the name implies, are indicative rather than prescriptive. Not being successful does not place one outside the pale of a community. Success rules are principles intended to increase the probability of solving the types of problems which fall within the purview of a particular paradigm. Laws (together with boundaries) define what that purview is. ³

Second Step: utilise the Mintzberg perspective on 'planning as programming' to ask three key questions.

Mintzberg's planning-plans-planners model can now be focused upon a specific area of planning and plans - EBP (definitions were provided in section 1.2.6, above). This generates three questions which must be answered in order to describe an EBP paradigm framework.

(1) What should be the elements (building blocks, ingredients, components, contents - call them what one will) of the EBP program? Answering this question will define the boundaries and laws of the EBP planning paradigm.

(2) How does one first isolate then, later, combine these elements into a coherent sequence and procedural system. Answering this question will provide the EBP planning paradigm's rules for success and instrumentation requirements.

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³ An illustration may be useful. The boundaries of a tennis court are clearly marked. One of the many laws of tennis is that the server gets only two chances to land the ball in the designated landing area. One of the success rules of tennis is to 'get a high percentage of first serves in play'. One does not cease to be a tennis player if one cannot achieve a high percentage of first serves (or fails to implement any other success rule). However, if one either breaks the law of 'two serves are all you are allowed on any given point' (or any other law) or permits continued hitting beyond the marked boundaries, one has left the community of tennis players and is playing some other game.
(3) Why are the boundaries and laws of (1) and the success rules and instrumentation requirements of (2) necessary and sufficient? The answer to this question provides the theoretical basis for the EBP planning paradigm.

Third step: provide answer categories for these questions by embracing Mintzberg's three roles for a plan: communication, control and simulation.

Taking this combinatory step produces an analytical framework suitable for investigating the EBP paradigm. It can be visualised as a four by three matrix, supported by theory. See below, Exhibit 2-2.

EXHIBIT 2-2
ANALYTICAL FRAMEWORK FOR INVESTIGATING THE EBP PARADIGM

<table>
<thead>
<tr>
<th></th>
<th>What are the defining elements?</th>
<th>How does one obtain success?</th>
</tr>
</thead>
<tbody>
<tr>
<td>PARADIGM BOUNDARIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PARADIGM LAWS</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>PARADIGM SUCCESS RULES</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>INSTRUMENTATION REQUIREMENTS</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

THEORETICAL JUSTIFICATION. Why does this paradigm contain these prescriptions?

2.3.3 OPERATIONALISING THE ANALYTICAL FRAMEWORK

The definition of the Entrepreneurial Business Planning paradigm (first presented in the previous chapter) is reproduced below.

'The Entrepreneurial Business Planning Paradigm (if it exists) is the set of combined principles and prescriptions - both theoretical and practical - upon which scholars and practitioners in the discipline of entrepreneurship both agree and rely to determine relevant antecedent variables, express them in holistic relationship and subject them to sensitivity analysis in order to articulate a program for maximising the
probability of a desired change of state affecting the totality of an entrepreneurial venture.'

The analytical framework, depicted in exhibit 2-2, provides a mechanism for operationalising the definition.

Working horizontally, one is confronted with the need for any EBP paradigm to articulate four characteristics (boundaries, laws, success rules and instrumentation) for each of the three roles of a plan (communications medium, control device and simulation mechanism).

Together, paradigm boundaries and laws will articulate definitional substance: what elements comprise the paradigm. Together, paradigm success rules and instrumentation requirements will articulate methods of achievement: how one obtains success. Overall, the paradigm should possess an overt theoretical justification: a statement of why the planning paradigm consists of the mandated boundaries, laws, success rules and instrumentation requirements.

The analytical framework is now in place. It provides a comprehensive mechanism for classifying and critiquing whatever may be discovered about the existence of a prevailing EBP paradigm (the quest of chapter three) or whatever may be argued as an enhancement of that discovery (the substance of chapter four).
NOTE

The pagination of this thesis has been organised so that the pages can be printed double-sided.

As a result, there were blank pages at the end of some chapters, so that the first page of a new chapter always appeared on the page that faced up.

These blank pages are missing from this version of the thesis.

The pages involved are: vi, 32, 128, 302, 326, 224 and 344.
- 3 -

DISCOVERING THE EBP PARADIGM

A CONTENT ANALYSIS OF THE ENTREPRENEURIAL BUSINESS PLANNING LITERATURE

CHAPTER ABSTRACT

Aim and Method
This chapter contains an inquiry which employs content analysis to discover whether, within the normative/didactic EBP literature, an Entrepreneurial Business Planning paradigm exists. The method used to detect the paradigm was an adaptation of content analysis compatible with and adapted from the methodological prescriptions of Krippendorf (1980) and Carney (1972). This textual research technique required that assumptions, definitions, and communications attributes be made as explicit as possible. It suggested a variety of ways of making questions operational, heightened consciousness of problems and issues which less rigorous approaches to textual analysis might have overlooked and resulted in the production of a detailed textual survey instrument and rating system. When applied, the instrument produced a comprehensive, explicit quantitative data base and a fertile implicit qualitative data base capable of sufficient interpretative richness to distil an EBP paradigm.

Result: Summary Of The Prevailing EBP Paradigm
The research discovered that there is an established Entrepreneurial Business Planning paradigm whose major elements embrace: two key assumptions; four strong mandates; four weaker mandates; and three notable omissions.

TWO KEY ASSUMPTIONS OF THE PARADIGM SET ITS BOUNDARIES
(1) The EBP paradigm assumes entrepreneurial business plans are written about startup ventures for an audience of venture capitalists but that such plans are highly adaptable to a wide variety of enterprises and audiences.
(2) The EBP paradigm assumes that Entrepreneurial Business Planners have low levels of business knowledge (both in general and with respect to such key skill areas as revenue and cost forecasting, spreadsheet literacy and
financial modelling). This assumption limits the instructional sophistication provided on how to conduct the business planning process.

**FOUR STRONG PRESCRIPTIONS COMPREHend THE PARADIGM'S LAWS**

1. The dominant exhortation is to 'do it yourself'. That is, the entrepreneur is encouraged to write the business plan personally.
2. The plan's objectives must be defined.
3. The plan must be short (and this usually means 'less than 40 pages').
4. The plan must embrace a major effort of multi-disciplinary integration. At a minimum, this requires the blending of product, marketing, organisation, management and financial sub-plans into a coherent whole under the auspices of an articulated strategy.

**FOUR WEEKER PRESCRIPTIONS COMPREHend THE PARADIGM'S SUCCESS RULES**

There is a cluster of four plan attributes about which a weaker consensus exists:

1. rigid commitment to a prescribed table of contents for the plan;
2. the relative importance of financial projections (received wisdom is that the financial projections are relatively no more important than other functional and disciplinary aspects of the plan);
3. need for the plan to formally define a specific investment offer;
4. need for the plan to carefully differentiate a specific business concept.

**FOUR NOTABLE OMISSIONS**

The EBP paradigm does not mandate:

1. The need for a theoretical framework of planning or any theoretical justification of the model being posited.
2. The need for precise definitions of key terms.
3. The need for any generic instrumentation (say a spreadsheet model) capable of performing sensitivity analyses.
4. The need to articulate a specific opportunity statement.

**Two Major Implications Of The Research**

1. Entrepreneurship scholarship now has an evidential basis as well as an inferential basis on which to advance its knowledge of the entrepreneurial business planning process.
2. Both logic and practitioner experience indicate that the prevailing EBP paradigm has many flaws. In the interests of improving both the theory and practice of entrepreneurship, the EBP paradigm needs to be enhanced.
3.1 RESEARCH OBJECTIVES

3.1.1 GENERAL RESEARCH OBJECTIVE:
TO DISCOVER WHETHER AN EBP PARADIGM EXISTS

The theory and practice of Entrepreneurial Business Planning (EBP), also known as ‘Venture Planning’, possesses established central importance in the teaching of entrepreneurship but has received scant attention in entrepreneurship research. The researcher desired to resolve this anomaly by using content analysis as a research technique to discover and make overt any paradigm which may be implicit in the field of Entrepreneurial Business Planning (EBP) literature.

3.1.2 FORMAL STATEMENT OF THE SPECIFIC RESEARCH PROBLEM

The purpose of the inquiry reported in this chapter was to perform a rigorous content analysis of a representative sample of the EBP literature to answer the question: ‘Is there a prevailing paradigm of Entrepreneurial Business Planning (EBP)?’

The research problem was to define, extract, record, rate, analyse and collate core message content from a representative sample of EBP literature. While meaning of 'core message content' was at the heart of the research problem, it could not and ought not have been defined a priori. The chosen research method had to include techniques for determining what constituted 'core message content'.

If the investigative process revealed a discernible consensus of core message content among authors in the literature sample, that consensus could be claimed to represent the Entrepreneurial Business Planning paradigm.

3.1.3 RESEARCH RATIONALE:
AN EBP PARADIGM IS FUNDAMENTAL TO
ENTREPRENEURSHIP AS A DISCIPLINE

The anomaly of EBP's having received such a large amount of attention in entrepreneurship teaching but so little attention in entrepreneurship research is, simultaneously, a paradox. As Vesper succinctly states:
'Venture planning has been the subject of countless "how to" publications but very little systematic study.' (Vesper 1993: 310).

Reading these first lines of the EBP planning prescriptions of an eminent scholar in the discipline, even the most practically-oriented would-be entrepreneur, with the most marginal interest in entrepreneurship scholarship, will see the paradox and ask many pertinent questions such as:

'If there has been very little systematic study of how to conduct the venture planning process, does this not weaken the level of trust one can place in the prescriptions provided by any single author who purports to tell people how to do it?'

'Is this author's set of EBP prescriptions unsystematic by definition?'

'Why has there been no systematic study of the topic?'

And so on.

A 'how to' book, by its very nature, is also an 'ought to' book. It not only explicitly says 'these pages prescribe a way to plan a new venture' (i.e. provides practical prescriptions), it often explicitly - and always implicitly - says, 'reader, you ought to do it this way because this is the theoretically correct way'. That is, every 'how to' book is fraught with normative, practical and theoretical prescriptions. It is a model both of what to do and what ought to be done. A key question then becomes:

'Is every EBP "how to" book, a minority effort; sui generis; a world and a law unto itself? Or is it part of a larger EBP paradigm - a regime and rationale for planning recognised and endorsed by the majority of scholars and practitioners of entrepreneurship?'

The EBP paradox - the fact that teachers presume there is an EBP paradigm but researchers have never investigated the proposition - grows from two roots. First, social scientists accept that the validity and reliability of practical prescriptions lies in the solidity of the theory that underpins them - in the fundamentally simple sense that 'theory' means 'the best explanation of the available facts'. Second, 'explanation of available facts' requires, inter alia, the process of comparison. The key ingredient hitherto missing from the scholarly study of Entrepreneurial Business Planning has
been *comparative analysis*. And this, in turn, is because the task has seemed so daunting.

The EBP 'how to' literature, is growing so rapidly that Vesper calls it 'countless'. It is a jungle. Unfortunately, the faster the jungle grows, the more do serious scholars seem to shun comprehensive study of it because, as a body of literature, it is so uneven in quality, fragmented in location and difficult to classify with precision. Fortunately, there is a way through the jungle. The question remains, is the journey worth the trouble?

This author's answer is a resounding 'yes'.

The EBP literature can be regarded as a set of sets. Each EBP 'how to / ought to' book provides its own, specific, set of combined practical and theoretical prescriptions - an EBP model. In teaching an Entrepreneurial Business Planning course, a teacher will confer textbook status on one (seldom more) of the 'how to' books, and students will absorb and adopt its *overt* practical and often *covert* theoretical prescriptions. For students using the text, it will serve as the model of Entrepreneurial Business Planning and for these students the single *specific*, unreferenced model runs the risk of being misconceived as a *general* EBP paradigm. But a single model of Entrepreneurial Business Planning cannot, legitimately, serve as a paradigm, in the sense that a paradigm is a 'model of models', a 'paramount example'. Paradigm status demands significant plurality of agreement on basic assumptions and mandates.

Both paradigm detection *post facto* and paradigm building *ab initio* demand comparative analysis. A true paradigm distils the essential ingredients of *many* models. It consists of the irreducible minimum set of combined principles - theoretical and practical - upon which scholars in a discipline both agree and rely for the conduct of research capable of furthering the knowledge of that discipline and implementation capable of producing a desired outcome in the practical world.

Entrepreneurial Business Planning has been the subject of limited research which has dealt with planning as one of a number of success factors rather than as a topic in its own right. Duchesneau and Gartner (1988) found that emphasis on a number of aspects of planning, including assessing the market, considering a number of functional areas and devoting more time to planning were all related to success. Van de Ven, Hodson and Schroeder
(1984) found that the use of a program-planning model was associated with higher performance and that the number of people the plan was sent to for feedback was positively related to performance. Roure and Maidique (1986) found that the level of detail in planning the development of a technology was positively related to success.

These and other widely-spaced insights are theoretically interesting and potentially practically useful. But they lack integration through comparison. To date entrepreneurship scholarship contains no generic frame of reference, well-articulated agreement or even meaningful debate as to what constitute the common, core principles and priorities of Entrepreneurial Business Planning. Prior to the research findings about to be presented in this chapter, there has been no systematic investigation of EBP's set of sets. That is, there has been no examination of the EBP literature on an aggregate and comparative basis, to ascertain the major points of agreement and difference between the various individual EBP prescription sets contained in the 'how to / ought to' EBP literature.

Among Entrepreneurship scholars, practitioners and students, it is a common if implicit hypothesis that an EBP paradigm does exist because many of the individual 'how to' books often make superficially similar assumptions and recommendations. However, no scholar has yet described the similarities and diversities between individual prescriptions and articulated the paradigmatic elements - if, indeed, they do exist. Satisfaction with a hazy notion that venture planning prescriptions share 'a good deal of common ground', or some such other vague phrase, does no credit to entrepreneurship as a discipline. A more substantial investigation is long overdue.

A prime task of the entrepreneur, a sine qua non of a successful new venture, is to secure control over resources he or she requires for the creation, management and growth of that venture. Resource control requires the acquisition of venture funding: debt and equity. The acquisition of venture funds is a - often the - major motive and objective of Entrepreneurial Business Planning. Thus, the systematic investigation of Entrepreneurial Business Planning - which must start with answering the question of whether or not an EBP paradigm exists - is fundamental to Entrepreneurship as a discipline.
3.2 METHODOLOGICAL & THEORETICAL FRAMEWORK

3.2.1 COINCIDENCE OF METHODOLOGICAL AND THEORETICAL FRAMEWORKS IN THIS STUDY

With the help of two colleagues, Harry Van Andel and Pira Duraiswami, the author conducted a systematic analysis of a representative sample of the EBP literature, summarised, tabulated and criticised its contents in the hope of discovering an implicit received paradigm of EBP and making it explicit.

This inquiry contains investigative research. There is no theoretical framework because the entire study is an attempt to discover, by comparative content analysis, whether anything worthy of being called an EBP theory currently exists (entwined with the other elements which possibly comprise an existing EBP paradigm).

So, in this study the methodological and theoretical frameworks are synonymous.

3.2.2 GENERAL OBSERVATIONS ON METHODOLOGY IN ENTERPRISE RESEARCH

Methodology used in entrepreneurial research was extensively reviewed in the state-of-the-art research Conferences at the Centre for Private Enterprise and Entrepreneurship at Baylor University in 1981, the Institute for Constructive Capitalism at the University of Texas in 1986 and the Kenan Institute of Private Enterprise at the University of North Carolina in 1991. The essence of papers presented at these conferences have been captured in the books edited by Sexton and others (Sexton & Kasaldr, 1992).

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1 One of the defining characteristics of rigorous content analysis research is the effort put into maximising objectivity - at all stages of the process, but especially when coding recording units. Well-established general research principles concerned with triangulation and validity establishment, as well as specific precepts of content analysis as a technique made it mandatory that all of the recording and much of the interpretation of coded judgements be executed by more than one person as a means of minimising bias. This mandate conflicts somewhat with the mandate that a Ph.D. dissertation must be an original work, ideally conducted as a solo effort. I am deeply indebted to my students and colleagues, Harry Van Andel and Pira Duraiswami, who laboured for a great many hours in the often tedious detail of the very complex content analysis research reported in this chapter. I am indebted to my supervisor, Professor L.M. Gillin who enabled the right balance to be struck. The overall design, construction, control and reporting of the research are the results of my original conception. However, the credibility and quality of the execution were greatly enhanced by Van Andel's and Duraiswami's contributions and assistance.
Principal methodologies were summarised by Churchill and Lewis as Journalistic, Armchair, Survey, Public Data Base, Ethnography and Computer Modelling. Content analysis did not rate a mention.

McMillan and Katz (1992), among others, have suggested that the discipline of entrepreneurship could benefit greatly from both expansion of the range of research techniques employed and better integration of techniques as employed in other scientific fields. They argued that entrepreneurship scholars are overly defensive about both the complexity of their subject matter and the paucity of the data with which they have to deal. However, entrepreneurship researchers should take heart (and lessons) from the fact that epidemiologists, palaeontologists, archaeologists, criminologists and historians have extensive experience in drawing conclusions from minimal data. In all these fields, rich descriptive and explanatory models have been constructed from fragments of evidence and a willingness to employ a diversity of research techniques.

Aldrich (1992) observed that most research into entrepreneurship still relies on survey data, that longitudinal and other ethnographical studies have been slow to catch on; that only a small proportion of the studies examined choose homogeneous populations; and that cross-national research, while increasing, is still a low percentage of the total.

Churchill (1992: 589) sums up the overall challenge to entrepreneurship research for the nineties as understanding. The general progress made is that exploratory studies have been done and that the breadth of the field is better understood. What Churchill calls for now is attention to constructing more fully developed theoretical frameworks for predicting, explaining cause and effect relations and guiding empirical testing. No one area is emerging for future study, rather the nature of the field invites a move forward on a number of fronts, provided they are related to what is going on, what has gone before and to some relevant measure of entrepreneurial performance. Considerable agreement exists in a number of areas on the ways in which research in entrepreneurship should be conducted. Much of this research is directed at establishing cause and effect relations for the many variables affecting entrepreneurial success. The debate raging between the proponents of different variables or models testifies a dearth of linkages between the variables themselves and between variables and contingent or subsidiary factors.
Bygrave (1992) notes the potential clarity and practical implications of resolving the argument between the population ecology and the omnipotent strategist models. The former considers success or failure of a startup is determined by environmental events outside the entrepreneur's control. The latter holds that the entrepreneur determines his or her destiny. For results to be relevant Timmons and Sapienza (1992) assert that researchers must understand 'the realities and nuances' of an industry. The research presented in this chapter comports with this mainstream of accepted prescriptions on appropriate directions for entrepreneurship research.

3.2.3 THE GENERIC METHODOLOGY OF CONTENT ANALYSIS

(1) Overview

Content analysis imposes a search for essences; for economical framing of questions productive of useful insights and for an objective as possible analysis of the answers which texts provide to those questions. In the end though, the quality, reliability and validity of the answers obtained can never be better than the quality of the questions asked.

The early history of content analysis involved research into the sources underpinning respected texts. There is evidence of sophisticated analysis, of religious texts and concepts as early as 1744. An early example of quantitative analysis of printed material was recorded in eighteenth century Sweden. A religious controversy was resolved by counting and comparing religious symbols in a collection of disputed and acceptable hymns. Modern techniques of content analysis emerged from studies of newspapers in schools of journalism at the beginning of the twentieth century. The term 'content analysis', as a formal and technical term, is a mere sixty years old and was not listed in Webster's Dictionary of the English Language until 1961 (Krippendorff 1980). During World War II, content analysis was pressed into service first for the analysis of propaganda, then for military intelligence purposes. Concurrently, the use of the technique was adopted in several social sciences such as sociology, anthropology, political science and psychology.

The methodology has been developed mainly in the social sciences and humanities as a means of utilising a set of procedures to make valid inferences from text.
Communication content is transformed, through objective and systematic application of rules, into data that can be summarised and compared. Berelson (1952) defined it as 'a research technique for the objective, systematic and quantitative description of the manifest content of communication'. Content analysis, being a general purpose analytical infrastructure, can be adapted for a wide range of uses. Properly applied, it can be of service to anyone posing questions of formally communicated information (writing, aural and visual recordings) and seeking evidence based on data correlation and comparison. Some content analyses are more objective than others, but all content analyses, worthy of the name, involve sufficient quantitative rigour in their research designs to make their results more objective and replicable than purely qualitative or impressionistic assessment could provide. The technique is reductionist and can focus only on certain more overtly assessable aspects of texts. Strictly quantitative data analysis is normally not possible and so the inferences drawn are probabilistic.

The technique is capable of producing an answer to a question but it will not produce the question itself. If the initial question is a poor one, the analysis will turn out to be merely much ado about very little. For instance, the question 'how many times does the letter “a” appear in Hamlet and King Lear?' is unlikely to further our knowledge about the relationship between the two texts or the merit of either. It takes insight based on knowledge to devise a worthwhile question amenable to content analysis. The technique makes the question operational - capable of being tested to show whether or not the data support the inferences and nuances implied in the question.

Content analysis is capable of investigating everything from the mundanities of how to check source material to find whether some theory or viewpoint is represented in them, to the sophisticated discovery and interpretation of complex theories, viewpoints and source materials. A framework flexible enough to deal with all these circumstances must be a multi-purpose tool. Content analysis has been adapted to studies in communications, anthropology, psychology, social and political sciences. Each social science has developed specific sub-methodologies and jargon. This research has adapted it for entrepreneurship. All methodological sub-species share an iterative design procedure of data collection, data reduction, inference and analysis but sheer versatility of application has created a problem of definition.
The difficulty in narrowly defining 'content analysis' results from the wide range of purposes for which the technique can be used. The content analysis methodologist, Holsti, (1969), cites two broad definitions:

(1) 'A technique for gathering and analysing the content of text'.

(2) 'A phase of information-processing in which communication content is transformed, through objective and systematic application of categorisation rules, into data that can be summarised and compared'.

In coming to terms with and adapting detailed content analysis techniques to his specific research problem, this research's primary debts are to two methodologists: Krippendorff and Carney.

Klaus Krippendorff was Professor of Communication at the University of Pennsylvania's Annenberg School of Communications when he wrote his survey of the field of content analysis and its problems. His background in media analysis was the basis of his focus on the classification of words into reliable classification schemes. Carney is a historian, who understood the potential of content analysis and felt compelled to write a work of de-specialisation on the subject. In his book, he set out to show that the technique is intelligible to the non-expert, and that it is applicable in any discipline which has to deal with written materials or literature. Krippendorff (1980) defined the technique as one 'for making replicable and valid inferences from data to their context'. He considers Berelson's 'objective and systematic' to be subsumed by 'replicability'.

Of all the content analysis authorities studied by this researcher, Krippendorff has developed the most rigorous analytical framework - one that seeks to ensure results adequate to meeting the most arduous utility criteria to which content analysis can be applied. There are several respected content analysis methodologists who posit less rigorous prescriptions than Krippendorff. Weber (1985: 19), for instance, demands a less rigorous concept of face validity, under which correspondence is sought between the researcher's definition of a concept and his definition of the category that measures it. This researcher chose to ensure that his specific implementation of content analysis as a research technique was fully compatible with Krippendorff's general prescriptions but capable of embracing the wider scope of textual material envisaged by Carney and inescapable when the textual material is on the scale of whole chapters and
entire books as it is in the case of the Entrepreneurial Business Planning literature.

(2) Issues Of Reliability And Validity

In his treatment of the issues of reliability and validity in content analysis, Krippendorff (1980: 99) reinforces the importance of making only replicable and valid inferences. In content analysis, the problem of reliability or internal validity centres on measurement of the extent to which variations in any part of a research design represent real phenomena rather than the extraneous circumstances of measurement, the hidden idiosyncrasies of individual analysts or surreptitious biases of a procedure.

In order to design for reliability Krippendorff (1980: 131-146) defines three factors which must be tested:

*Stability* is the degree to which a process is invariant or unchanging over time. It becomes manifest under test-retest conditions.

*Reproducibility* is the degree to which a process can be recreated under varying circumstances, at different locations, using different coders. This is tested by coding the same body of text by more than one coder and comparing the results.\(^2\)

*Accuracy* is the degree to which a process functionally conforms to a known standard or yields what it is designed to yield. Its value is tested under standard conditions. The conditions are met when the performance of a coder or test instrument agree with what is known to be the correct performance or measure.

Reliability is expressed as a function of agreement reached and can be statistically tested using an agreement coefficient for matrix forms. The ultimate aim of reliability testing is to establish whether data obtained can provide a trustworthy basis for drawing inferences, making recommendations, supporting decisions or accepting something as fact. The problem of external validity is the degree to which variations inside the process of analysis correspond to variations outside that process and

---

\(^2\) Every stage of the coding in this study was reproduced three times: by each of Hindle, Van Andel and Duraiswami.
whether findings represent the real phenomena in the context of the data as claimed.

A measuring instrument (usually a data coding matrix) is considered valid if it measures what it is designed to measure. Krippendorff considers content analysis valid to the extent that its inferences are upheld in the face of independently obtained evidence. He has developed a typology of external validities. These include; data-related, semantic, sampling, product-oriented, correlational, predictive, and construct validity.

His definitions for the four most important types of external validities are:

**Construct validity** - correlation with some other measure of the same construct.

**Hypothesis validity** - if in relationship to other variables it behaves as it is expected to.

**Predictive validity** - the extent that forecasts about events or conditions external to the study are shown to correspond to actual events and conditions.

**Semantic validity** - exists when persons familiar with the language and texts examine lists of words placed in the same category and agree that these words have similar meanings or categories. (Weber 1985: 20)

Content classification is then accorded central importance and is considered separately to reliability and validity. Many words of text are classified into fewer content categories. Normally, each category consists of a single word or a short phrase. Words, phrases or other units of text are presumed to have similar meanings. Depending on the investigator's purposes, the similarity may be based on the precise meaning of the words or may be based on words sharing similar connotations. In order to draw valid inferences from the text, it is important that the classification procedure is reliable. Krippendorff argues that it is necessary to develop special rules on *unitising* and *categorising* where the purpose of analysis is to expose hidden or latent meanings of communication. For example, in the analysis of newspaper editorials, the researcher may seek to determine the attitude to minority groups. A number of dictionaries have been created to provide uniformity and to increase ability to analyse text using computers.
It might be argued that attention to such specific details and an emphasis on matters especially relevant to newspaper texts reduces the universality of Krippendorff's prescriptions on content analysis. For instance, Carney (1972: 153) has taken a wider view by introducing the concept of making questions operational rather than reducing the volume of text by group and classifying words, paragraphs or themes to expose latent meanings. Crucial to making questions operational is the business of estimating what constitutes 'more' or 'less'. This decision can be made using scales. The purpose of counting can be extended by categorising questions and doing cross analyses.

In summary, the decision to use what might be called a 'Krippendorff-Carney compatible' content analysis as a textual research technique forced a minute examination of the nature of the questions asked and the measuring instrument developed. It required that assumptions, definitions, and models be made as explicit as possible. It suggested a variety of ways of making questions operational. All this heightened consciousness of problems and issues which less rigorous approaches to textual analysis might have overlooked.

(3) Content Analysis Investigation Procedure

Krippendorff's (1980: 54) chart of the iterative design and execution process of content analysis (schematically shown as Exhibit 3-1) provided a schematic overview of the process and was used as a starting point for adapting content analysis to this researcher's particular application. Carney's process of posing operational questions (developed for non-entrepreneurship disciplines), unburdened by unitising and categorisation rules, was the next most useful step. Questions of sampling, reliability and validity could then be considered in the light of the specific objectives of this study's particular research problem.

In general, an iterative content-analysis design procedure consists of data making, data reduction, inference and analysis. The starting point is knowledge of a body of text about which a number of relevant questions can be formulated and coded. Every question must be capable of receiving at least three answers - Yes (affirmative), No (negative) or Maybe. The questions to be formulated will arise from a suspicion or curiosity about the texts to be analysed.
EXHIBIT 3-1
Krippendorf Content Analysis Schematic

Theories and Knowledge about the Stable Data-Context Relations

↑
Analysis

←
Validation

↑

Analytical Construct

→
Inference

↑

Data Reduction

↓
Recording Instructions

→
Recording

↑

Sampling Plan

→
Sampling

↑

Unitisation Scheme

→
Unitisation

↑

Raw Data

Direct Evidence about the Inferred Phenomena
This suspicion or curiosity or pre-supposition or (dare one use the word?) hypothesis, forms the basis of an analytical construct - a data capturing and measuring instrument. The answers produced to the questions are the unitising scheme which can be scaled and/or counted on the measuring instrument. The questions can be grouped into categories for comparison and analysis of patterns or trends. The questions must be posed to a selection of texts determined by a sampling plan. Thresholds have to be agreed for the answers to each question. The recording instructions will influence reliability of the answers.

The answers are collected in a database for manual or, preferably, computer sort-and-select procedures. The patterns or trends revealed by data reduction provide inferences which can be further analysed and validated by comparison with perceptions and direct knowledge of the area of study. The range of questions can be reviewed, fruitless questions discarded and new ones added. The effectiveness of the sampling plan and recording instructions can be subjected to statistical analysis - if warranted - by the importance or significance of the findings and the process repeated until a definite pattern or lack of pattern emerges.

3.2.4 CONTENT ANALYSIS AND ENTREPRENEURSHIP RESEARCH

Until 1994, as far as this researcher had been able to ascertain - by referring to published analysis of trends and typologies of entrepreneurship research - there had never been a major research project in the field of entrepreneurship which employed a formal scheme of content analysis as its major method of investigation.

By 1995, content analysis was becoming an increasingly used technique. One (still unpublished) example of its use by established entrepreneurship researchers was a paper delivered in 1994 at Babson College's annual Frontiers of Entrepreneurship Research conference. By William Gartner, Jennifer Starr and Jon Goodman, the paper was entitled: 'The Value Of Content Analysis for Developing Venture Screening Skills' (Gartner, Star and Goodman: 1994).

It is now safe to claim that content analysis has a significant future as a research technique in the field of entrepreneurship.
3.3 RESEARCH DESIGN AND DATA COLLECTION

3.3.1 OVERVIEW AND GUIDING PRINCIPLES OF THE RESEARCH DESIGN

The research design reported in this chapter is an adaptation of Krippendorff's Content Analysis Procedure, depicted as a schematic flow chart in Exhibit 3-2. The arrows show the flow of action from the body of existing information through the design, action and analysis stages back to the starting point.

One can uncontroversially start the research process from the proposition that some, if not all, entrepreneurs use a combination of theoretical and practical assumptions, laws and techniques for the planning of entrepreneurial business and these precepts may have enough commonality to constitute an EBP paradigm.

The research design to test this proposition consists of:

- a sampling plan (detailed in section 3.3.2);
- a unitisation scheme (detailed in section 3.3.4)
- which results in a survey instrument (detailed in section 3.3.5);
- recording instructions (detailed in section 3.3.6 and appendix A-1);
- control mechanisms (detailed in section 3.3.7);
- a data reduction and presentation scheme (detailed in section 3.3.8);
- data analysis (detailed in section 3.4).

In accordance with these procedures, the researcher selected appropriate sample sets of both books and journal articles from the EBP literature and rated each sampling unit to produce the records for data reduction. To reduce bias and maximise objectivity, the rating process was independently conducted by assisting co-researchers Van Andel and Duraiswami. In exhibit 3-2, the two reciprocal arrows between the 'Data Reduction Scheme' and 'Data Reduction' boxes are indicative of an iterative and interactive review process. In fact, at this stage of the research process, the researcher and his colleagues discovered a superior categorisation of attributes (those ultimately embodied in the survey instrument - see exhibit 3-3, below) for producing inferences which were then reviewed, analysed and validated by the comparative process indicated by subsequent arrows on the schematic (exhibit 3-2, overleaf).
### EXHIBIT 3-2

**CONTENT ANALYSIS RESEARCH DESIGN SCHEMATIC**

<table>
<thead>
<tr>
<th>Theories and Knowledge about Entrepreneurship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analysis</td>
</tr>
<tr>
<td>Adequacy</td>
</tr>
<tr>
<td>Performance</td>
</tr>
<tr>
<td>Comparison</td>
</tr>
<tr>
<td>Validation</td>
</tr>
</tbody>
</table>

| Analytical Construct                        |
| EBP Paradigm                                |
| Key Attributes, Trends                      |
| Inference                                   |

| Data Reduction Scheme                       |
| Relational Database                         |
| Sort, Select, Count                         |
| Data Reduction                              |

| Recording Instructions                      |
| Question/Grading Definition                 |
| Sample Unit Rating                          |
| Recording                                   |

| Unitisation Scheme                          |
| Survey Instrument                           |

| Sampling Plan                               |
| Representative Sample                       |
| Books & Journals                            |
| Sampling                                    |

| Business Planning Literature                |

| EBP Successes and Failures                  |

---

3 For assistance with the development and presentation of this schematic as a distillation of the prevailing wisdom in the field of content analysis, the author is deeply grateful to his colleague, Harry Van Andel.
3.3.2 **DEFINITION OF TECHNICAL TERMS USED IN THE CONTENT ANALYSIS RESEARCH**

**Analysis categories** are categories used in the data reduction and analysis phase.

**Attributes** are the properties of the sampling units or the properties of business plans prescribed in the sampling units.

**Categories** are groupings of attributes.

**Cross Sectional Graph** is a pictorial representation of the counted responses to a question (or questions) of a selected subset of the sample.

**Longitudinal Graph** is a pictorial representation of counted responses to one or more categories of questions.

**Questions** are not questions in the sense of interrogations of human respondents. They are the short-hand summaries of communication characteristics used, in the survey instrument, to evaluate and rate selected attributes of the communication.

**Rate** is a position on a 5-point Likert Scale. This will range from the number 1, for a 'very low' rating to a 5 for a 'very high' rating. (See, below, section 3.3.6).

**Rater** is the person doing the rating - i.e. either Hindle, Van Andel or Duraiswami.

**Rating** is the rating given by a rater for a question. This will range from the number 1, for a 'very low' rating to a 5 for a 'very high' rating. (See, below, section 3.3.6).

**Recording Categories** are categories used in the recording phase.
**Recording Unit**  
In content analysis generally, a recording unit is an item counted for the purpose of quantitative analysis, data reduction and inference drawing. In this study, a recording unit is the actual rating given by a rater to each question on the survey instrument.

**Sampling Units**  
are the books and journal articles selected for evaluation.

**Selected Sample**  
is a group of sampling units selected under nominated criteria.

**Sub-categories**  
are subsidiary groupings of similar attributes within a generic attribute category.

**Survey Masterchart**  
is the summary table of recording units counted for the selected samples of books and journal articles.

**Weighted Average**  
is a measure of the weighting of summed responses counted for a question.

**Weighted Average Masterchart**  
is a summary table of weighted averages of several selected sub-samples.

3.3.3 **SAMPLING PLAN**

* Books Sample

The volume, diversity and quality variance of EBP literature prohibits a census. To analyse the EBP literature, a sampling plan is mandatory but a statistically based sample is impossible. Apart from other matters to be discussed presently, this is simply a function of time. To understand their communication content and analyse their contents in detail, books and articles had to be read and coded, in great detail by each of three coders, Hindle, Van Andel and Duraiswami. Realising the impracticality of covering a very large number of books but the need to cover a sufficient number, the researcher and his colleagues chose to review, in great detail...
and by careful reading, the full text of a limited but representative sample of 38 books (and 51 journal articles) rather than cursory examination and superficial coding of a larger number of abstracts. The bibliographic details of each work in the selected sample are provided in the bibliography section of this dissertation.

The starting point for establishing an EBP literature book sampling plan was the specialist library of the Centre for Innovation and Enterprise (CIE), School of Management, Swinburne University of Technology. The CIE library is a collection of books on entrepreneurship assembled by specialist entrepreneurial teaching staff as background and material for their courses. It includes materials acquired as a result of CIE staff's association with Babson College and attendance at entrepreneurship conferences worldwide. As a result of this researcher's and Professor L.M. Gillin's interest in entrepreneurial business planning and their attempts, since 1989, to acquire as many works on EBP as possible, the CIE library contains Australia's heaviest concentration of books devoted to entrepreneurial business planning. Questions and codes were selected, in the first instance, from detailed reading of the CIE library holdings on Entrepreneurial Business Planning. Books were chosen on the basis that part or whole of the book dealt with the writing of business plans.

The first page of this chapter quotes Karl Vesper calling the EBP literature 'countless' (Vesper 1993: 310). This researcher's experience of traditional key-word based citation searching bears him out because the topics 'Entrepreneurial Business Planning' and 'New Venture Planning' cross the boundaries of a myriad of more traditional library-based classification systems and many management disciplines (corporate strategy, organisational behaviour, marketing and operations research to name only four). Nevertheless, to support the content analysis and give a measure of validity to its conclusions, some estimate of the number of books devoted to Entrepreneurial Business Planning had to be attempted.

To gain a measure of the size of the sample relative to the universe of books on the subject, a database search of books in print was conducted. This search, based on a range of keywords which in isolation or combination included, *inter alia*, 'business', 'plan', 'entrepreneur' (in all its forms), 'venture', and 'new venture', finally yielded - after much cross-referencing and checking - 90 titles which included 10 already read from the CIE library group. This was a far smaller volume of books than the
researcher had expected. While the library search, under the professional auspices of Ms Prue Taylor, was thorough and professional\(^4\), it is clear that a traditional library search by words in a title - albeit aided by the latest computer and communications technology - is not conclusive. As a crude method of estimating (most likely over estimating) the 'universe' of EBP books, the researcher supposed it might be as proportionately larger than the listings obtained by library search as his number of books read was to the listings obtained. This calculation produces a universe of EBP books numbering 350.\(^5\) The final sample of books used for the content analysis (titles listed the bibliography) numbered 38. It is therefore reasonable to argue that this sample represented at least 10\% of Entrepreneurial Business Planning books published in the English language on or before January 1, 1995. Further discussion of how representative this sample may be claimed to be is covered by the discussion of the unitising scheme, in the next section of this chapter.

- Journal Articles Sample

For Journal articles the researcher, in consultation with Van Andel and Duraiswami, chose a strategy based on database abstracts. Articles were selected from a search of databases mentioned below and by using several filters to reduce the number of 'hits'. This process yielded 51 journal articles (listed in the bibliography) which were assessed and coded using the same rating instrument applied to the content analysis of books.

The computer search of Dialog Databases for journal articles on the writing of business plans was based on the word 'business' in association with or not with the word 'plan'. A filter added the part-words writ?, creat? or prepar? within 10 words and discarded duplicates. Twenty two databases were searched.

The results of the progressive searches proceeded to narrow down over five million articles with 'business' in the title to only 125 articles on the 'writing', 'preparation', 'creation', 'execution' or 'use' of a business plan.

\(^4\) The researcher acknowledges his indebtedness to Ms Prue Taylor, research librarian at the Swinburne library, for her invaluable professional assistance in helping him and his colleagues to work through the universe of EBP literature and arrive at a sample both representative enough and manageable enough to form the basis for content analysis research.

\(^5\) This dissertation's supervisor, Professor L.M. Gillin's qualitative opinion is that this universe is far too high an estimate. So, he was well satisfied with the sample size.
The 125 articles were downloaded to a disk for analysis using a personal computer. More duplicates were culled as were articles with inadequate information or articles dealing with a specific company. Some interesting articles with inadequate abstracts were later searched for the full text. The final number of journal article sampling units selected for content analysis was 51.

When added to the 38 books, this produced a total of 89 sampling units for rating and analysis.

3.3.4 UNITISATION SCHEME AND RECORDING UNIT INPUT:
THE PROCESS OF COMMUNICATION ATTRIBUTE CLASSIFICATION

In content analysis, the unitisation scheme is the basis of creating recording units which can be counted and analysed. In this research, the unitisation task was to capture both the extrinsic attributes prescribed (by 'how to' book and journal article authors) for the writing of business plans and the intrinsic attributes of the works such as the level of sophistication which authors presumed in their readers. The unitisation task thus had three major components:

(1) the need to distinguish categories and sub-categories of each business planning author's audience definition and prescriptions for that audience;
(2) the need to create a meaningful rating system for the categories thus distinguished;
(3) the need to combine (1) and (2) in a comprehensive survey instrument which could then be applied to each book and journal article in the literature samples.

The categorisation task had to accommodate three key ingredients:

(1) the concept that every entrepreneurial business planning 'how to' book is a 'sets of sets';
(2) the variability in purpose of business planning models (as explained, above, in section 3.1);
(3) the inherent dangers of unreferenced models and the need for a resultant paradigm to distil the essential ingredients of many models.
The objective was to achieve a well-organised, formal grouping of sufficient concepts to cover the total EBP prescriptions/theory of an EBP 'how to' writer.

The starting point, of course, was to read everything, make copious notes, work on a schema which 'didn't leave anything out' and progressively refine that schema until it comprised an effective efficient and comprehensive survey instrument providing a platform for the recording of categories of information and attributes and the posing of questions (i.e. the defining of attributes) within those categories.

This process resulted in judgement that four major information/attribute categories embraced every attribute of all works:

**KEY QUESTION 1:** What does the author of the work assume about the existing, relevant knowledge level of the reader of the work?

**CATEGORY TITLE:** Pedagogic Axioms

**KEY QUESTION 2:** What contextual framework (including assumptions, axioms and theories) does the author of the work employ?

**CATEGORY TITLE:** Context Attributes

**KEY QUESTION 3:** What is prescribed: what the author says an EBP must contain and that an EBP writer must do?

**CATEGORY TITLE:** Content Prescriptions

**KEY QUESTION 4:** How much is taught, in what detail, at what level?

**CATEGORY TITLE:** Instructional Sophistication

Each category embraced two or more attributes, as the following section, presenting and describing the survey instrument, will show. It was decided that these attributes should be presented, on the survey instrument as questions (coded with short titles). For instance (see below) pedagogic axiom number one, in question format, is: 'What is the presumed general business knowledge of the audience?'. It is short-hand coded on the instrument as 'Presumed Audience GBK Level'.
In the researcher’s judgement - checked and vindicated by the close scrutiny of his colleagues Harry Van Andel and Pira Duraiswami who also read all of the literature - twenty two attributes/questions, arranged in the four categories, fully embraced and summarised the major messages communicated by the 38 book and 51 journal article writers.

The recording units (as mandated by Krippendorff) for this content analysis research, now become the rated responses to the 22 questions on a 5-point ordinal scale. The 5-point scale has the merit of a neutral point at the centre, affirmative or negative at the extremes and an option to indicate a trend in between. Detailed presentation of each communications attribute/survey question and the precise meaning of the 5-point rating scale when applied to each attribute are detailed in the following sections.

3.3.5 UNITISATION SCHEME OUTPUT: THE SURVEY INSTRUMENT

The survey instrument (exhibit 3-3) is a unique source document for collecting information and recording ratings for each sampling unit (book or journal article. It embraces four major areas of message content.

Area 1 contains the title particulars using the Harvard System, type of publication and name of the rater (i.e. Hindle, Van Andel or Duraiswami).

Area 2 is the rating table with the questions, grouped in categories. Here the rater marks his assessment of the text using the column headings VL for Very Low, L for Low, N for Neither High nor Low, H for High and VH for Very High.

Area 3 provides space for generating further key words, suggested by reading this work, which might aid the search for further EBP references.

Area 4 (carrying over onto further pages of the survey instrument if need be) contains space for listing the cross-references to other EBP works cited by this author; coder’s comments on any difficulties or key decisions made in offering any rating etc.; and a critique or summary of the text. Notes in this area were particularly helpful for purposes of triangulation when the three coders met to form a consensus rating for each work.
### EXHIBIT 3-3
THE SURVEY INSTRUMENT

#### EBP LITERATURE CONTENT ANALYSIS SURVEY SHEET

<table>
<thead>
<tr>
<th>REFERENCE DETAILS:</th>
<th>Coder:</th>
<th>Book (B) or Journal Article (J):</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RATING INSTRUMENT:</th>
<th>VERY HIGH</th>
<th>HIGH</th>
<th>MEDIUM</th>
<th>LOW</th>
<th>VERY LOW</th>
<th>ADDITIONAL COMMENTS</th>
</tr>
</thead>
</table>

#### PEDAGOGIC AXIOMS
- Presumed Audience GBK Level
- Presumed Computer/S'sht Literacy

#### CONTEXT ATTRIBUTES
- Stand Alone
- Startup Bias
- Venture Capital Presumption
- Overall Length
- Adaptability Claim
- Adaptability Potential

#### CONTENT PRESCRIPTIONS
- Keep It Short
- Do It Yourself
- Define Target Audience
- Define Plan Objectives
- Define The Investment Offer
- Differentiate Business Concept
- Formal Opportunity Statement
- Multi-disciplinary Integration
- Rel. Impor. of Financial Projections
- Sensitivity Analysis Importance
- Table Of Contents Rigidity

#### INSTRUCTIONAL SOPHISTICATION
- Overall
- Revenue & Cost Forecasting
- Financial Modelling

#### KEYWORDS:

#### CITATIONS CODER'S NOTES AND SUMMARY CRITIQUE:
3.3.6 RECORDING INSTRUCTIONS: PRECISE DEFINITIONS
OF THE RATING SCALES FOR EACH OF THE 22 QUESTIONS

The survey instrument has twenty two questions for each of which five definitions are required. For instance, question one (summarised on the survey instrument as 'presumed audience GBK level') is:

'What does the author presume about his or her target audience's level of general business knowledge (GBK),'

To use the five-point scale for rating purposes on this question, a rater cannot be permitted to operate with hazy notions of very high, high, neither high nor low, low and very low. A thorough and meticulous content analysis research process, capable of triangulation and reduplication, requires that there be a precise definition of exactly what is meant by:

- *very high* presumed audience GBK level;
- *high* presumed audience GBK level;
- *neither high nor low* presumed audience GBK level;
- *low* presumed audience GBK level;
- *very low* presumed audience GBK level.

And so it is for all twenty two questions.

Presentation of all 110 definitions in the body of the text would tax a reader beyond reasonable endurance. The definitions, used by the three raters (Hindle, Van Andel and Duraiswami) and capable of being used by any other researchers to verify their results are contained in appendix A-1, 'Content Analysis Rating Scale Definitions'.

For each of the twenty two communications attributes assessed on the rating scale, appendix A-1 provides:

- a full statement of the communications attribute question;
- the abbreviation of the question used on the survey instrument;
- five grading definitions.

One excerpt - that for question 18 (chosen at random) - is reproduced in this section for illustrative purposes.
QUESTION 18 How important is it to include in the business plan (or at least have the ability to generate) the key results of alternative scenarios, which have been tested for sensitivity of the venture to variations in assumptions and other key data inputs?

Abbreviated format used in the survey instrument:

SENSITIVITY ANALYSIS

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
</tr>
<tr>
<td>Sensitivity analysis is a major issue, explained in the text and used to present a finished but flexible business plan.</td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>Author recommends, at a minimum that analysis (including financial analysis) of alternative scenarios be conducted and possibly included in appendices.</td>
</tr>
<tr>
<td>Neither</td>
</tr>
<tr>
<td>Sensitivity analysis mentioned but not emphasised.</td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Author advises the projection of at least an optimistic and pessimistic case with respect to at least one functional area of the plan.</td>
</tr>
<tr>
<td>Very Low</td>
</tr>
<tr>
<td>No mention of sensitivity analysis.</td>
</tr>
</tbody>
</table>

3.3.7 CONTROL MECHANISMS

As stated, the objective of this content analysis study was firmly focused on discerning common themes, recommendations, trends and patterns in the recorded theory and practice of entrepreneurial business planning: not to establish absolute benchmarks. The researcher and his colleagues recognised that, notwithstanding the care they had taken with precise definition of questions and ratings in order to maximise objectivity, the whole process was still subjective. But well-controlled and frankly expressed subjectivity does not negate the value or even the replicability of research. Especially in the social sciences, the notion of perfect objectivity is a myth. What is required is a rigorous quest for as much objectivity as possible and a frank description of the limits of that quest. The researcher sought stability, accuracy and objectivity in the crucial matter of attribute rating by two means.
First, precision of definition. The previous section contains a very precise definition of exactly what possibly vague ordinal points such ('high', 'low' et cetera) on a five-point scale actually meant with respect to each of the communication attributes. Second, elimination of sole-assessor bias. The researcher used, in addition to himself, two other well-qualified raters - enough for triangulation but not so many as to cause confusion and poor communication. The trio reviewed, compared and agreed the rating for every attribute of every work.

Happily, the task of review-comparison-consensus was not difficult because, in the vast majority of cases, all three ratings were identical to start with - a helpful indicator that the control of subjectivity was strong and that the quest for objectivity was meeting with considerable success. When variations between the three raters did occur they were very minor and there was no consistent pattern to them. For example, for the attribute, 'Define Plan Objectives', across the whole 89 works in both sample sets, Duraiswami rated higher once and lower twice than Hindle and Van Andel. For the attribute 'GBK', Hindle rated higher once and lower once than his colleagues and for 'Adaptability', Van Andel rated higher once and lower once than his colleagues.

The two attributes of 'adaptability' ('adaptability claim' - that claimed by the author of a work and 'adaptability potential' - that estimated by the rater) were the most potentially ambiguous and problematic rating areas. The issue was much discussed during the rating period. Van Andel had initially looked at 'adaptability claim' from the point of view of 'adequacy of information being provided to adapt to a range of business plan scenarios'. Duraiswami had looked for 'specific claims by the author in regard to adaptability'. In reference to 'adaptability potential', Van Andel had looked at 'whether it could be done at all' and Duraiswami 'whether it could be done readily'. Following the discussion which took place midway through the rating period, respective positions were adjusted.

A similar interpretation-of-rating problem surfaced concerning the 'GBK' and 'Overall' audience knowledge-level evaluations. Van Andel initially rated business knowledge by 'the level of knowledge required to understand the author's propositions'. Duraiswami judged it by the 'level of knowledge required to act on the information'. Hindle always had in mind a combination of both. The EBP prescriptions in Timmons' New Venture Creation (Timmons 1990) provides a good example of the
difficulty in this area. It is written to assist the fledgling entrepreneur. The many tables and lists provided as a step by step guide attest to this. On the other hand, the sheer volume of the book make it less accessible to the inexperienced than less ambitious books such as Don Vogelaar's (1991) *How To Write A Business Plan*. The researcher and his colleagues concluded that subdividing or multiplying the attribute was not justified. Instead, a printout of books rated High or Very High was perused for inappropriate entries before using that subsample for discernable trends under the heading 'Context Prescriptions'.

Other individual rating difficulties inevitably arose and were treated.

For instance, *Business Planning* by Richardson and Richardson (1992) was a book possibly difficult to rate for length. The whole of the book was about business planning as a general phenomenon but the space allocated, specifically, to entrepreneurial (new venture) business planning was very low. All three raters therefore gave it a 'very low' length rating on the basis that they were assessing EBP prescriptions not the very general 'planning' literature or even the more general area of 'business planning' prescriptions.

In summary, the requirement for maximization of objectivity in the allocation of ratings was ensured through the use of three raters (triangulation at its most literal), attention to definitional detail and constant cross-referencing of data-recording problems as they arose.

3.3.8 DATA REDUCTION, ANALYSIS AND PRESENTATION SCHEME

(1) Guiding Principles And Basic Rank-Comparison Techniques

The purpose of the data reduction scheme was to accumulate the ratings for individual attributes; all attributes; and selected combinations of attributes in the samples of books and journal articles.

The process of analysis was based on the ability to rank and compare ratings. First, an aggregate quantitative summation of ratings called a 'survey masterchart' (see, below, the next section) was created and analysed to select the most revealing combination of sampling units for cross-tabulation and discussion. For ease of representation the summation of recording units across the five points of each attribute's 5-point rating scale, was converted
to a weighted average score by multiplying the proportion of the total sample achieving the rating by the numerical value of the rating. Numerical values were: 'very low'=1; 'low'=2; 'neither high nor low'=3; 'high'=4 and 'very high'=5. The weighted average is a single value which can, by analogy, be compared with the 'centre of gravity' of the counted recording units of an attribute. The weighted average of a number of selected groupings of sampling units were then combined to produce a masterchart of weighted averages.

Then, a great variety of groupings and comparisons of sampling units (representing 'sets of sub-sets') became possible by a simple technique of ranked plotting. A plot of the values across a question shows the importance given to that question under varying conditions (with respect to any other grouping and ranking of attributes). For instance, an attribute under consideration might be the 'instructional sophistication of financial modelling' (question 22), and one sub-set of the sample might be 'books whose authors made a high or very high presumption that the prime audience for a plan would be a venture capitalist' (question 5) - and so on.

A plot down the list of questions could then be used to represent and rank (by data-sorting of weighted averages) the relative importance attached to attributes for any selected sub-set of sampling units. For example, a plot, down a sub-sample selected for 'high venture capital presumption' could show which other attributes are most closely associated with high venture capital presumption. And so on, for the total number of permutations of attributes. As will be seen in subsequent sections, this mutual rank-comparison capacity provided the researchers, (and is capable of continuing to provide future analysts who wish to use the data base) with a clinical, quantitative, analytical tool which is simultaneously a very flexible aid to insightful, qualitative interpretation.

(2) Revised Categorisation Schema

As analysis progressed, the researcher found that the four broad categories of attribute with which he started (i.e. 'Pedagogic Axioms', 'Context Attributes', 'Content Prescriptions' and 'Instructional Sophistication') could be usefully collapsed into only two major categories of paradigm subdivision: i.e. OUTPUT ATTRIBUTES (what an entrepreneurial business plan should do ) and INPUT ATTRIBUTES (how an entrepreneurial business planner should do it).
This revised categorisation and associated sub-categorisation, presented in the survey master charts (exhibits 2-4 and 2-5, below), will be discussed in detail as part of the forthcoming presentation of research results (section 2.4) and used as the framework of paradigm description and analysis throughout the remainder of the dissertation - especially in the next chapter, concerned with paradigm critique and suggested enhancement.

(3) Counting And Weighting Procedure

Once the recording units were consolidated into a master survey chart, the summation was checked for completeness by ensuring that the total number of recording units for each question equalled the number of sampling units under consideration.

In other words (where VH='very high' etc.), for any question x, and number of sampling units y:

\[ y = \Sigma VH + \Sigma H + \Sigma N + \Sigma L + \Sigma VL \]

As previously discussed, a weighted average was then calculated as a measure of the relative quantum of the counted recording units of a grouping of sampling units. The weight was allocated linearly, from a weighting of 1 for 'very low' to a weighting of 5 for 'very high'. The average weighting \( W \) is then calculated using the formula:

\[ W = \frac{\Sigma VL}{y} + \frac{2\Sigma L}{y} + \frac{3\Sigma N}{y} + \frac{4\Sigma H}{y} + \frac{5\Sigma VH}{y} \]

The value of minimum rating, which occurs when all sampling units are marked as very low (V) is:

\[ W_{\text{min}} = \frac{\Sigma V}{\Sigma V} = 1 \]

And the value of all maximum grading is:

\[ W_{\text{max}} = \frac{\Sigma VH}{\Sigma VH} = 5 \]

The weighted average therefore is a measure which gives the net average position of a selected group of sampling units on a useful scale of 1 to 5. Grouping sampling units by different input questions allows a trend of attributes to be plotted.
(4) Database Design

All recording units were entered into a Microsoft Access Relational Database Management System for Windows for manipulation into sets of sets. The database was made up of 6 tables: Books, Categories, Questions, Rate, Rating and Recorder.

The main repository of recording units in the data base was a rating table comprising: Rating ID, Author ID, Question ID, Rate ID and Recorder ID. In total 38 Books and 51 Journal Articles were evaluated and \( 89 \times 22 = 1,958 \) recording units entered (the recording units thus occupied one fifth of the total of 9,790 possible positions). The data were thus amenable to quick retrieval and total cross-referencing in a manner analogous to (but not, of course identical to) cross tabulation procedures for bi-variate analysis of statistically valid random samples. In plainer language, the data base provided great ease of access to all the data for all the quantitative and qualitative assessment one might wish to do.

Analysis led us to the generation, *inter alia*, of the following subsidiary tables.

The **Books Table** with a four digit Author ID (Identification Symbol), an Author(s) Description, Year of Publication and Category ID.

The **Categories Table** with a Category ID and Category Name. The category name permitted a distinction between types of publication.

The **Question Table** with Question ID and Question Description.

The **Rate Table** with Rating ID, Rating Description and Abbreviated Rating Description.

The **Recorder Table** with Recorder ID and Recorder Name. A numerical suffix to the 4 digit Recorder ID was used to record multiple rating of the same sampling unit. The first three digits were the Raters Initials.
(5) Database Utilisation And Potential

The content analysis database, thus configured, has a powerful capacity to sort and select the sampling units and, perform consolidation of recording units and do any calculation. This facility is made possible through a system of queries, forms and reports.

The table design permits sorting and consolidation of sample units in combinations of all, books only or journals only. Then sorting can be by nominating criteria as: year of publication, rater, question alone or by question and singular rating or grouped rating.

A primary sort of books alone and journals resulted in the most important analytical constructions of the research: the Survey Master Charts (exhibits 3-4 and 3-5), discussed in the next section. The books survey master chart turns out to be a virtual portrait of the prevailing EBP paradigm and thus the centre of attention for a considerable amount of this thesis. The consolidated rating and weighted average results for each question for the books category were judged important enough for separate discussion. For journal articles the consolidated outcome did not provide sufficient contrast to merit detailed analysis.

From the books' survey masterchart, the researcher used judgement (submitted always to the critical scrutiny of his co-content analysts Van Andel and Duraiswami) to select significant and promising input attributes for trend and theme analyses. Attribute cross-references were selected on the basis of exposing interrelationships with the highest descriptive and explicative power.
### 3.4 DATA ANALYSIS

#### 3.4.1 THE BOOKS’ SURVEY MASTER CHART: A MAP OF THE PREVAILING EBP PARADIGM

**EXHIBIT 3-4**

**THE BOOKS SAMPLE SURVEY MASTER CHART**

<table>
<thead>
<tr>
<th>Output Attributes (What an EBP should do)</th>
<th>Very Low</th>
<th>Low</th>
<th>Neither High nor Low</th>
<th>High</th>
<th>Very High</th>
<th>We Ave*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Define target audience</td>
<td>8</td>
<td>21%</td>
<td>7</td>
<td>18%</td>
<td>7</td>
<td>18%</td>
</tr>
<tr>
<td>Define plan objectives</td>
<td>2</td>
<td>5%</td>
<td>6</td>
<td>16%</td>
<td>8</td>
<td>21%</td>
</tr>
<tr>
<td>Define investment offer</td>
<td>9</td>
<td>24%</td>
<td>9</td>
<td>24%</td>
<td>10</td>
<td>26%</td>
</tr>
<tr>
<td>Differentiate business concept</td>
<td>9</td>
<td>24%</td>
<td>13</td>
<td>34%</td>
<td>6</td>
<td>16%</td>
</tr>
<tr>
<td>Formal opportunity statement</td>
<td>18</td>
<td>47%</td>
<td>3</td>
<td>11%</td>
<td>4</td>
<td>14%</td>
</tr>
<tr>
<td>Provide adaptability potential**</td>
<td>6</td>
<td>16%</td>
<td>11</td>
<td>29%</td>
<td>8</td>
<td>21%</td>
</tr>
<tr>
<td>Communication Clarity And Credibility</td>
<td>3</td>
<td>8%</td>
<td>3</td>
<td>8%</td>
<td>9</td>
<td>24%</td>
</tr>
<tr>
<td>Do it yourself***</td>
<td>9</td>
<td>24%</td>
<td>3</td>
<td>8%</td>
<td>9</td>
<td>24%</td>
</tr>
<tr>
<td>Table of contents rigidity</td>
<td>8</td>
<td>21%</td>
<td>10</td>
<td>26%</td>
<td>7</td>
<td>18%</td>
</tr>
<tr>
<td>Finance Perspectives And Prescriptions</td>
<td>4</td>
<td>11%</td>
<td>4</td>
<td>11%</td>
<td>19</td>
<td>50%</td>
</tr>
<tr>
<td>Multi-disciplinary integration</td>
<td>6</td>
<td>16%</td>
<td>13</td>
<td>34%</td>
<td>8</td>
<td>21%</td>
</tr>
<tr>
<td>Relative importance of financial projections</td>
<td>61%</td>
<td>8</td>
<td>21</td>
<td>3</td>
<td>8%</td>
<td>3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Input Attributes (How an EBP author should do it)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audience and Instructional Sophistication</td>
</tr>
<tr>
<td>Presumed Audience CBK Level</td>
</tr>
<tr>
<td>Overall</td>
</tr>
<tr>
<td>Author Independence-Interdependence</td>
</tr>
<tr>
<td>Do it yourself***</td>
</tr>
<tr>
<td>Startup bias</td>
</tr>
<tr>
<td>Venture Capital presumption</td>
</tr>
<tr>
<td>Autonomy and Adaptability</td>
</tr>
<tr>
<td>Adaptability claim</td>
</tr>
<tr>
<td>Adaptability potential**</td>
</tr>
<tr>
<td>Finance and Spreadsheet Modelling</td>
</tr>
<tr>
<td>Presumed computer and spreadsheet literacy</td>
</tr>
<tr>
<td>Financial modelling instruction</td>
</tr>
</tbody>
</table>

* Weighted Average on a five point scale where 1='very low', 2='low', 3='neither high nor low', 4='high' and 5='very high'.

** Adaptability potential is deliberately listed twice because it is simultaneously an input and output attribute.

*** Do it yourself is deliberately listed twice because it is simultaneously an input and output attribute.
### Output Attributes
(What an EBP should do)

<table>
<thead>
<tr>
<th>Category</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor And Message Definition</td>
<td>1.18</td>
</tr>
<tr>
<td>Define target audience</td>
<td>1.27</td>
</tr>
<tr>
<td>Define plan objectives</td>
<td>1.24</td>
</tr>
<tr>
<td>Define investment offer</td>
<td>1.22</td>
</tr>
<tr>
<td>Differentiate business concept</td>
<td>1.12</td>
</tr>
<tr>
<td>Formal opportunity statement</td>
<td>1.12</td>
</tr>
<tr>
<td>Provide adaptability potential**</td>
<td>1.53</td>
</tr>
<tr>
<td>Communication Clarity And Credibility</td>
<td></td>
</tr>
<tr>
<td>Do it yourself***</td>
<td></td>
</tr>
</tbody>
</table>

### Formatting Prescriptions
- Keep it short | 1.27 |
- Table of contents rigidity | 1.35 |

### Finance Perspectives And Prescriptions
- Multi-disciplinary integration | 1.29 |
- Relative importance of financial projections | 1.39 |
- Sensitivity analysis importance | 1.18 |

### Input Attributes
(How an EBP author should do it)

<table>
<thead>
<tr>
<th>Category</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audience and Instructional Sophistication</td>
<td>1.14</td>
</tr>
<tr>
<td>Presumed Audience GBK Level</td>
<td>1.22</td>
</tr>
<tr>
<td>Overall</td>
<td></td>
</tr>
<tr>
<td>Author Independence-Interdependence</td>
<td>1.53</td>
</tr>
<tr>
<td>Do it yourself***</td>
<td></td>
</tr>
<tr>
<td>Start Up and Venture Capital Bias</td>
<td></td>
</tr>
<tr>
<td>Startup bias</td>
<td>3.08</td>
</tr>
<tr>
<td>Venture Capital presumption</td>
<td>2.49</td>
</tr>
<tr>
<td>Autonomy and Adaptability</td>
<td></td>
</tr>
<tr>
<td>Stand alone</td>
<td>1.02</td>
</tr>
<tr>
<td>Overall length</td>
<td>1.04</td>
</tr>
<tr>
<td>Adaptability claim</td>
<td>1.25</td>
</tr>
<tr>
<td>Adaptability potential**</td>
<td>1.12</td>
</tr>
</tbody>
</table>

### Finance and Spreadsheet Modelling
- Presumed computer and spreadsheet literacy | 1.16 |
- Revenue & cost forecasting instruction | 1.10 |
- Financial modelling instruction | 1.10 |

---

* Weighted Average on a 5-point scale where 1='very low', 2='low', 3='neither high nor low', 4='high', 5='very high'.

** 'Adaptability potential' is listed twice because it is both an input and an output attribute.

*** 'Do it yourself' is listed twice because it is both an input and an output attribute.
Thus, in this paradigm-discovery research, three content analysts rated 89 sampling units from the EBP literature: the full text of 38 books and 51 journal articles with results of their ratings consolidated in the Survey Mastercharts, exhibits 3-4 and 3-5.

The books' masterchart shows the total of recording units in each rating classification for each question. The adjacent percentage shows the recording units of a rating as a proportion of total recording units of a question. The right hand column figure contracts the ratings of a question to a single number by means of the weighted average procedure previously discussed. The weighted average was the key device used to rank attributes questions in order of importance and to show patterns, trends and relationships under different conditions. The journals masterchart is confined to listing weighted averages. As will be discussed at greater length presently, the EBP journal literature is so poor in quality that it deserves the adjective 'trivial'. The majority of articles came from general business publications and could best be described as mere exhortations - chiefly aimed at encouraging their readership to make the effort to write a business plan rather than providing either precepts for doing it or scholarly critique of entrepreneurial business planning.

With respect to journal articles, the main research finding has to be that there is, as yet in the discipline of entrepreneurship, virtually no scholarly literature, worthy of the name, on the topic of entrepreneurial business planning. The EBP paradigm is to be found from a distillation of the book literature alone.

The survey master charts show attributes grouped into the input and output categories and sub-categories introduced in Section 3.3.8.

The Input category comprises attributes which were originally grouped on the survey instrument (exhibit 3-3, above) under the Pedagogic Axioms, Context Attributes and Instructional Sophistication categories. The Output category (which started life on the survey instrument as 'Content Prescriptions') contains the prescriptions with which each 'how to write an entrepreneurial business plan' author gives to his or her reader. Similar attributes in each category have been combined into sub-categories found useful for analytical discussion. The use of journal article evaluation is limited to an overall comparison with the books.
The search for the EBP paradigm was conducted in two stages. First, a detailed examination of the ratings of input attributes led to selection of sub-samples useful for inferring EBP theory and instructional trends. Second, came the plotting of important weighted-average data from selected sub-samples as a means of making key patterns in the data clearly visible.

3.4.2 WEIGHTED-AVERAGE RATING CHARTS: BROAD-BRUSH PORTRAITS OF THE PREVAILING EBP PARADIGM

Exhibits 3-6 and 3-7 plot, in descending order, the weighted averages of input and output attributes recorded in both samples. The graphs encapsulate the essence of the figures in both survey results mastercharts. Viewed together, they provide a convenient overview - a very clear broad-brush portrait - of the Entrepreneurial Business Planning paradigm.

On the input side, one can see the emphasis placed on writing for start up and venture capital situations. This emphasis is echoed by the journals. The importance of doing your own business plan writing, describing the objectives of your plan and keeping it short are clear ingredients of the prevailing wisdom. Surprisingly, the importance attached to financial projections is at a low level. The lowest ratings were given to attributes associated with: target audience definition and appeal theme; differentiation of business concept; making a formal opportunity statement; and clearly stating the plan's investment offer. The lowest-ranked attribute of all is sensitivity analysis. The EBP literature has lagged the accessibility to both entrepreneurs and the general public of personal computers with the memory capacity to run sophisticated spreadsheet software packages capable of performing sensitivity analyses. Of course, one expects a lag between a technology becoming available and its becoming part of everyday usage, but this investigation demonstrates that the adoption of the possibilities opened up by wide availability of spreadsheets has been recognised more slowly by entrepreneurship educators than by educators in such traditional fields as accounting. Much more will be said on this and many other results of the content analysis when the paradigm which the content analysis revealed is critically examined in the next chapter. Here, the task is simply to reveal the paradigm, and for that purpose the 'pictures' of exhibits 3-6 and 3-7 are worth many thousands of words.
EXHIBIT 3-6
RANKED WEIGHTED AVERAGES OF INPUT ATTRIBUTES

All Books

Journals

EXHIBIT 3-7
RANKED WEIGHTED AVERAGES OF OUTPUT ATTRIBUTES

All Books

Journals
3.4.3 Detailed Observation of Selected Attributes

Note on data presentation. Exhibits 3-8 to 3-18 which follow, are simple graphical plots of the results of rating various content attributes. The horizontal axis indicates the percentage of sample. The vertical axis indicates the five ordinal categories, from 'very high' to 'very low'. Thus, for each key attribute of the Entrepreneurial Business Planning literature, a simple, clear picture of the results of attribute rating is presented.

General Audience and Instructional Level Presumptions

EXHIBIT 3-8

Ratings Of Presumed Audience GBK Level

- Very High
- High
- Neither
- Low
- Very Low

Weighted Average was 2.37 - i.e. 'low'.

EXHIBIT 3-9

Ratings Of Overall Instructional Sophistication

- Very High
- High
- Neither
- Low
- Very Low

Weighted Average was 2.45 - i.e. 'low'.

Note: All exhibits which follow are graphed from data in the books sample only.
Observations On Instructional Sophistication

* No ratings in Very High category.
* Maximum rating in Low category.
* Weighted average of Instructional Sophistication only marginally higher than GBK
* Weighted average less than 3 in both categories.

'Very low' ratings in this area embraced a type of authorial approach, which can be loosely described as 'Rule of Thumb Practitioners', who tend to focus on a limited set of aspects or even one aspect as being the dominant centre of all entrepreneurial planning efforts. For instance Berle, a retired Director in Marketing and a Member of the (US) Service Corps of Retired Executives, emphasises the overpowering importance of marketing compared with other aspects the EBP process (Berle 1989).

The High ratings tend to go to books written by professional educators, such as Timmons and Ronstadt. They attempt to provide the ability to deal with a variety of information.

Finance and Spreadsheet Modelling

Exhibit 3-10
Question 2
Ratings Of Presumed Computer And Spreadsheet Literacy

[Bar chart showing ratings with 'Very Low' being the highest, followed by 'Low', 'Neither', 'High', and 'Very High'.]

Weighted Average was 1.37 - i.e. 'very low'.


Observations On Finance and Spreadsheet Modelling

* All three attributes have a preponderance of Very Low ratings.
* All three have a weighted average below Low (2).
* None of the three have any Very High ratings.
* All attributes have less than 20% of books in the N or H categories.
Autonomy and Adaptability

EXHIBIT 3-13
Question 3
Ratings Of 'Stand Alone' Prescription

Weighted Average was 2.68 - i.e. 'neither high nor low'.

EXHIBIT 3-14
Question 6
Ratings Of Overall Length

Weighted Average was 3.47 - i.e. 'high'.

Note: The median length rating was Very High (over 99 pages).
Observations On Autonomy and Adaptability
An author of a prescription on how to produce Entrepreneurial Business Plans tended to claim that his or her prescription is highly adaptable to a wide range of businesses and circumstances. The researchers tended to assess this 'adaptability potential' of a work at a lower level than its author claimed for it.
Startup and Venture Capital Biases

EXHIBIT 3-17
Question 4
Ratings Of Startup Bias

Very High
High
Neither
Low
Very Low

Weighted Average was 3.58 - i.e. 'high'.

EXHIBIT 3-18
Question 5
Ratings Of Venture Capital Presumption

Very High
High
Neither
Low
Very Low

Weighted Average was 3.37 - i.e. 'neither high nor low'.

Observations On Startup and Venture Capital Biases
Most common rating was High for both attributes. The startup assumption is a dominant feature of the EBP paradigm with 68% of books being rated High or Very High. A majority of authors assume that venture capital will be the preferred form of finance sought by the entrepreneur.
3.4.4 SIMILARITIES, CONTRASTS AND TRENDS

This section presents graphed cross-tabular comparisons for a selection of four attributes.

(1) High versus Low startup bias;
(2) High versus Low venture capital audience presumption;
(3) Recent versus earlier publications;
(4) Publications with a High versus Low level of instructional sophistication.

High versus Low Startup Bias

EXHIBIT 3-19
HOW BOOKS WITH A HIGH STARTUP BIAS RANK OTHER ATTRIBUTES

EXHIBIT 3-20
HOW BOOKS WITH A LOW STARTUP BIAS RANK OTHER ATTRIBUTES

Notable differences are the emphases on the need to define the investment offer, the need to differentiate the business concept, to keep it short and
define the target audience. The assessment of do it yourself and multi disciplinary integration is identical. In both cases, defining the plan's objectives, is highly rated and sensitivity analysis lowly rated.

**High Versus Low Venture Capital Audience Presumption**

**EXHIBIT 3-21**

**HOW BOOKS WITH A HIGH VC BIAS RANK OTHER ATTRIBUTES**

<table>
<thead>
<tr>
<th>Audience Presumption</th>
<th>High Venture Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do It Yourself</td>
<td>5</td>
</tr>
<tr>
<td>Keep It Short</td>
<td>4</td>
</tr>
<tr>
<td>Define Plan Objectives</td>
<td>3</td>
</tr>
<tr>
<td>Multi-Disc. Integration</td>
<td>2</td>
</tr>
<tr>
<td>Define Investment Offer</td>
<td>5</td>
</tr>
<tr>
<td>Importance Of Fin. Proj.</td>
<td>3</td>
</tr>
<tr>
<td>Tab.Of Cont. Rigidity</td>
<td>2</td>
</tr>
<tr>
<td>Differ. Business Concept</td>
<td>5</td>
</tr>
<tr>
<td>Define Target Audience</td>
<td>4</td>
</tr>
<tr>
<td>Formal Opp. Statement</td>
<td>3</td>
</tr>
<tr>
<td>Impt. Of Sensit. Anal.</td>
<td>1</td>
</tr>
</tbody>
</table>

**EXHIBIT 3-22**

**HOW BOOKS WITH A LOW VC BIAS RANK OTHER ATTRIBUTES**

<table>
<thead>
<tr>
<th>Audience Presumption</th>
<th>Low Venture Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do It Yourself</td>
<td>5</td>
</tr>
<tr>
<td>Keep It Short</td>
<td>4</td>
</tr>
<tr>
<td>Define Plan Objectives</td>
<td>3</td>
</tr>
<tr>
<td>Multi-Disc. Integration</td>
<td>2</td>
</tr>
<tr>
<td>Define Investment Offer</td>
<td>5</td>
</tr>
<tr>
<td>Importance Of Fin. Proj.</td>
<td>3</td>
</tr>
<tr>
<td>Tab.Of Cont. Rigidity</td>
<td>2</td>
</tr>
<tr>
<td>Differ. Business Concept</td>
<td>5</td>
</tr>
<tr>
<td>Define Target Audience</td>
<td>4</td>
</tr>
<tr>
<td>Formal Opp. Statement</td>
<td>3</td>
</tr>
<tr>
<td>Impt. Of Sensit. Anal.</td>
<td>1</td>
</tr>
</tbody>
</table>

The striking differences between high and low venture capital presumption are the opposite perceptions of the need to 'keep it short' and to define the investment offer. In other respects, the approach to business plan writing is similar. Common low priorities are defining the target audience, making a formal opportunity statement and sensitivity analysis.
Recent Versus Earlier Publications

EXHIBIT 3-23
HOW PRE-1989 BOOKS RANK OTHER ATTRIBUTES

EXHIBIT 3-24
HOW POST-1989 BOOKS RANK OTHER ATTRIBUTES

The trend shows that post-1989, the advice 'to keep it short' is growing. Advice to 'do it yourself' and 'define plan objectives' is about the same. Advice to 'define target audience, business concept and investment offer' has grown steadily. Reliance on rigid formatting (table of contents) is diminishing. Emphasis on formal opportunity statement and sensitivity analysis shows moderate growth over time.
In contrast with low-level books, books with relatively higher levels of instructional sophistication place significantly more emphasis on all attributes with the exception of 'do it yourself' and 'table of contents rigidity' and 'sensitivity analysis'.

### 3.5 Research Results Summary and Discussion: The Prevailing EBP Paradigm Revealed

#### 3.5.1 Summary of the Prevailing EBP Paradigm

The research discovered that there is an established Entrepreneurial Business Planning paradigm whose major elements embrace: two key assumptions; four strong mandates; four weaker mandates; and three notable omissions. These are set out, below, in a manner which presents them according to the EBP framework developed, above, in chapter two.

**Question 1: What are the paradigm's boundaries?**

**Answer: The paradigm makes two key assumptions**

1. The EBP paradigm assumes entrepreneurial business plans are written about startup ventures for an audience of venture capitalists but that such plans are highly adaptable to a wide variety of enterprises and audiences.

2. The EBP paradigm assumes that prospective Entrepreneurial Business Planners have low levels of business knowledge (both in general and with respect to such key skill areas as revenue and cost forecasting, spreadsheet literacy and financial modelling). This assumption limits the
instructional sophistication provided on how to conduct the business planning process.

**QUESTION 2: WHAT ARE THE PARADIGM'S LAWS?**

**ANSWER: THERE ARE FOUR LAWS STRONGLY PRESCRIBED**

The following four attributes (all classifiable as laws) are strongly mandated by the EBP literature.

1. The dominant exhortation is to 'do it yourself'. That is, the entrepreneur is encouraged to write the business plan personally.
2. The plan's objectives must be defined.
3. The plan must be short (and this usually means 'less than 40 pages').
4. The plan must embrace a major effort of multi-disciplinary integration. At a minimum, this requires the blending of product, marketing, organisation, management and financial sub-plans into a coherent whole under the auspices of an articulated strategy.

**QUESTION 3: WHAT ARE THE PARADIGM'S SUCCESS RULES?**

**ANSWER: THERE ARE FOUR SUCCESS RULES WEAKLY PRESCRIBED**

There is a cluster of four plan attributes (all classifiable as success rules) about which a weaker consensus exists:

1. rigid commitment to a prescribed table of contents for the plan;
2. the relative importance of financial projections (received wisdom is that the financial projections are relatively no more important than other functional and disciplinary aspects of the plan);
3. need for the plan to formally define a specific investment offer;
4. need for the plan to carefully differentiate a specific business concept;

**QUESTION 4: WHAT ARE THE PARADIGM'S INSTRUMENTATION REQUIREMENTS?**

**ANSWER: THERE ARE NONE**

The discovered paradigm does not mandate any instrumentation requirements.

**QUESTION 5: WHAT IS THE PARADIGM'S THEORETICAL JUSTIFICATION?**

**ANSWER: THERE IS NONE**
The discovered paradigm does not provide a consistent body of theoretical justification for the boundaries, laws and success rules it prescribes.

THE FOUR MOST SURPRISING OMISSIONS

Every researcher begins with pre-suppositions. In relationship-seeking quantitative research these might be very formally stated at the beginning of a project as testable hypotheses. In exploratory qualitative research they may reside in the background of a researcher's mind as 'informed suspicions'. Subsequent to the content analysis, the researcher felt a very strong sense of surprise that the research did not reveal the EBP paradigm as prescribing the following four things.

1. The need for a theoretical framework of planning or any theoretical justification of the model being posited.
2. The need for precise definitions of key terms.
3. The need for any generic instrumentation (say a spreadsheet model) capable of performing sensitivity analyses.
4. The need to articulate a specific opportunity statement.

The author's sense of surprise - almost amazement - at the absence of any mandating of these four things by the discovered EBP paradigm is post facto evidence that the author had at least four 'background' presuppositions about his expected findings which he did not articulate at the commencement of the research.

TABULAR REPRESENTATION

Exhibit 3-26 employs the EBP paradigm framework developed in chapter 2, above, to summerise the discovered EBP paradigm in tabular format.

3.5.2 WEIGHTED AVERAGE WISDOM?

No matter how complex or simple the statistical techniques of analysis performed on any content analysis data set may be, it is wise for the content analyst to pause and reflect with due humility upon one inescapable fact: content analysis is an averaging technique. And it is highly dangerous to purvey 'weighted average' wisdom.
EXHIBIT 3-26
THE DISCOVERED ENTREPRENEURIAL BUSINESS PLANNING PARADIGM

<table>
<thead>
<tr>
<th>What are the paradigm elements?</th>
<th>How does one obtain success?</th>
</tr>
</thead>
<tbody>
<tr>
<td>PARADIGM BOUNDARIES</td>
<td>PARADIGM LAWS</td>
</tr>
<tr>
<td>COMMUNICATIONS</td>
<td>(Strongly prescribed).</td>
</tr>
<tr>
<td>Receivers (audiences) are:</td>
<td>1. Do it yourself. *</td>
</tr>
<tr>
<td>primary - VC Companies;</td>
<td>2. Define plan objectives.*</td>
</tr>
<tr>
<td>secondary - numerous, ill-defined.</td>
<td>3. Keep it short.</td>
</tr>
<tr>
<td>Sender (business plan writer) is:</td>
<td>4. Plan must involve multi-</td>
</tr>
<tr>
<td>relatively unsophisticated in</td>
<td>disciplinary integration. *</td>
</tr>
<tr>
<td>business skills.</td>
<td>(Weakly prescribed).</td>
</tr>
<tr>
<td></td>
<td>Message content should:</td>
</tr>
<tr>
<td></td>
<td>1. Employ a standard table of contents.</td>
</tr>
<tr>
<td></td>
<td>2. Define a specific investment offer.</td>
</tr>
<tr>
<td></td>
<td>3. Differentiate the business concept.</td>
</tr>
<tr>
<td></td>
<td><strong>No clear pattern of recommendations.</strong></td>
</tr>
<tr>
<td>CONTROL</td>
<td>None prescribed.</td>
</tr>
<tr>
<td></td>
<td>(Strongly prescribed).</td>
</tr>
<tr>
<td></td>
<td>Laws 1, 2 and 4, above.</td>
</tr>
<tr>
<td></td>
<td>4. All plan sub-components have equal importance.</td>
</tr>
<tr>
<td></td>
<td><strong>No clear pattern of recommendations.</strong></td>
</tr>
<tr>
<td>SIMULATION</td>
<td>None prescribed.</td>
</tr>
<tr>
<td></td>
<td>None prescribed.</td>
</tr>
<tr>
<td></td>
<td>None prescribed.</td>
</tr>
<tr>
<td><strong>THEORETICAL JUSTIFICATION.</strong></td>
<td>None provided.</td>
</tr>
</tbody>
</table>

* The prescription has both a communications and a control role.
In a literal sense, there is no such thing as a 'typical' book or journal article. Every such work is a unique intellectual artefact. But it is equally dangerous to abrogate responsibility for discerning a paradigm consensus if one exists. Bearing in mind all the dangers and difficulties inherent in content analysis of the books and journal articles, the researcher believes it is both correct, desirable and necessary to summarise the EBP paradigm, as he has done in the previous section.

That having been said, some aspects of the study are worthy of further brief discussion.

**The Paucity Of Journal-Based Scholarship**

In general, the EBP journal 'literature' is not scholarly literature. It is aimed at providing specific professional audiences (e.g. laboratory managers, health professionals etc.) with very broad guidelines and fervent exhortations that a new venture should be planned. The respected entrepreneurship research journals are virtually void of any articles on the topic of EBP worthy of the name 'research'. Naturally, a 'how to' prescription, for reasons of necessary length, is far more likely to come from a book than a journal article. Thus, the EBP paradigm had to be sought from a distillation of wisdom contained in books. The journal literature is simply too insubstantial to support any major inferences, as exhibit 3-6, above, clearly indicates.

**Trends**

- In books with a higher level of instructional sophistication and books written after 1989, there is a marked trend to an ever-stronger multi-disciplinary emphasis.

- There is a clear trend to increasing recognition of the importance of defining the investment offer, rather than relying on or hoping the investor will come up with the best deal. The trend becomes very strong for books written after 1989.

- A trend to increasing emphasis on the relative importance of financial projections in the EBP process is discernible. The prime driver of this trend has been author recognition of prospective investors' (venture
capitalists' in particular) need for increasingly sophisticated, flexible and credible financial projections.

- A marked 'non-trend' is the lack of any growth in admonitions concerning the ability to perform sensitivity analyses. Indeed, sensitivity analysis (from almost every category of perspective one could conceivably generate from this content analysis research) was regarded as the least important of the output attributes which the literature contains.

3.5.3 WHY IS IT SO? A TENTATIVE EXPLANATION OF THE PREVALENCE OF AN INADEQUATE EBP PARADIGM

Because answering the question 'why?' is an area of almost pure speculation - reconstructing the implicit motives and rationality of a wide variety of EBP authors - this researcher does not intend to dwell on it. Further, none of the research and analysis which follows in the rest of this dissertation in any way depends on the speculations which are about to be made. Nevertheless, it is interesting to ponder the reasons for the EBP paradigm being what it is.

Clearly there is an element of self-fulfilling prophesy. If a writer assumes a low level of general business knowledge and then seeks to instruct widely in multi-disciplinary skilling, that writer is, a priori, limiting the depth of detail which he or she can hope to impart.

There is very little cross-referencing and no EBP research base or tradition among authors in the EBP field. Every author is a virtual world unto himself or herself. This limits the ability to achieve those cumulative effects - knowledge building on knowledge - which are the central benefits of genuine scholarship and the sine qua non of the development of a community of scholars capable of furthering knowledge through research. Clearly, many of the EBP authors have read one another\(^7\), but they do not often acknowledge one another. And they do not seek to avoid 're-inventing the wheel'. This is a literature of implied one-upmanship - 'my wheel is better than yours'.

\(^7\) The best indicator of mutual unacknowledged readership is the prevalence of the 'no more than 40 pages' prescription when advising on how long entrepreneurial business plans should be. Who first set this particular and seemingly arbitrary prescription? Thirteen of the 38 books in the EBP content analysis sample specifically mentioned 'no more than 40 pages' as a length. Either there is a common unacknowledged ancestor, or remarkable coincidence is at work.
This researcher believes that the majority of books were written under influence of an unacknowledged model: called by Bygrave and Timmons (1992: 4) 'classic venture capital'. A constant theme in Bygrave and Timmons book is that the 'classic venture capital' model - patient, long-term, high-risk, equity capital supplied by patient knowledgeable investors with skills and wisdom other than mere money (but plenty of that) provided to startup businesses of high potential - was always a rarity and is now virtually non-existent. Venture capital has become merchant capital. To this researcher there is little doubt that something very like the 'classic venture capital' model (i.e. a minority stylisation at best, a myth at worst) is the implicit guiding assumption behind many of the works in the literature.

The author's final speculation as to why the EBP paradigm has its current dimensions can be expressed as a simple proposition: 'neglect breeds neglect'. By volume, research in the emerging discipline of entrepreneurship has tended to favour survey-based methodology with large data sets thus providing the capability for demonstration of mastery of quantitative analytical skills on the part of the researcher (McMillan and Katz 1992: passim). Furthermore, certain well-established themes (e.g. entrepreneurial success factors) have developed a literature base and therefore the desirable possibility for cumulative discourse. Put more simply, some areas are both popular and well-populated by scholars. In contrast, the EBP field is unpopular and un-populated by committed researchers; that is people whose motives are heuristic rather than didactic. The quality specialist journals offer nothing much on which to build while the wildcat realm of seemingly ungovernable 'how to' literature proliferates on its messy way to becoming, as Karl Vesper has said, 'countless' (Vesper 1993: 310).

3.5.4 CONCLUSION: TWO MAJOR IMPLICATIONS OF THE RESEARCH

The research described in this chapter succeeded in 'counting' the literature which professor Vesper and others have called 'countless'. The result of the 'counting' was the discovery that there is an established Entrepreneurial Business Planning paradigm. The discovery has two major implications:
(1) Entrepreneurship scholarship now has an evidential basis as well as an inferential basis on which to advance its knowledge of the entrepreneurial business planning process.

(2) Both logic and (as will be seen in the next chapter) the grounded theory of practitioner experience indicate that the prevailing EBP paradigm has many flaws. In the interests of improving both the theory and practice of entrepreneurship, the EBP paradigm needs to be enhanced.

That task is reported in the following chapter.
The pagination of this thesis has been organised so that the pages can be printed double-sided.

As a result, there were blank pages at the end of some chapters, so that the first page of a new chapter always appeared on the page that faced up.

These blank pages are missing from this version of the thesis.

The pages involved are: vi, 32, 128, 302, 326, 224 and 344.
CHAPTER ABSTRACT

The chapter begins with establishment of the six boundary-establishing axioms of the enhanced EBP paradigm before introducing the three methods to be used for paradigm enhancement: logical critique, model application and grounded theory. Following an exposition and evaluation of grounded theory methodology and a critique of the discovered EBP paradigm, the core of the chapter is the application of the two primary techniques of grounded theory - constant comparative method and theoretical sampling - to a grounded theory data base comprising projects drawn from the author's experience as a professional Entrepreneurial Business Planning consultant. This produced four major theoretical categories in the form of mandates required to develop a theory and, beyond it, a paradigm of Entrepreneurial Business Planning:

- operationalise the plan sender's need for resources;
- operationalise the plan receiver's need for due diligence;
- create a comprehensive financial projection model;
- operationalise the power of simulation.

These mandates impose the need to specify how to use a financial projection model to meet the plan receiver's need for due diligence. The chapter presents a method which meets the need: the 'ECIPP method' of dynamic due diligence. It is a systematic regime for evaluating the viability of new ventures in five stages: establishing mandates; creating projections; identifying issues; prioritising procedures and performing those procedures.

The chapter concludes with a synthesis which applies the analytical framework (developed in chapter 2) to the results of the combined research efforts of discovery (chapter 3) and critique, modelling and grounded theorising (this chapter). This process results in exhibit 4-3 which encapsulates the enhanced Entrepreneurial Business Planning paradigm in a schematic embracing six boundary conditions, twelve laws, six success rules and two instrumentation requirements.
4.1 BOUNDARY DEFINING AXIOMS

4.1.1 AXIOM 1: THE 'IMPEDED GROWTH' AXIOM REPLACES THE 'STARTUP/VC' AXIOM

It emerged from the research reported in chapter three, that the prevailing EBP paradigm is bounded by a strong presumption that Entrepreneurial Business Planning is an activity pertinent more to startups (and particularly startups seeking venture capital) than to any other kind of venture. The author's enhancement of the paradigm begins with extending its boundaries far wider than these narrow constraints. The author's first axiomatic contention is that the major boundary-setting phenomenon - that which distinguishes a problem as being an Entrepreneurial Business Planning (EBP) problem and makes entrepreneurial business planning techniques (rather than any other techniques) pertinent to its solution - is impeded growth.

Entrepreneurial education is focused on managing the conceptual, introductory and growth phases of the business lifecycle whereas traditional management education pays greater attention to techniques appropriate for management of the maturity phase. Entrepreneurship as a discipline is focused on managing growth. In this context, conceived at the most general level of insight to which the researcher has been able to obtain, the laws and success rules of the EBP paradigm are all directed to removing impediments to growth. Hence, if a major problem of any venture can be classified as impeded growth, then the precepts of the EBP paradigm may be beneficially applied.

The depth implications of the impeded growth axiom will be explored in chapter 7, below. At this stage, it is sufficient to recognize their breadth. Replacing the narrow 'startup-VC' perspective with an 'impeded growth' perspective greatly widens the boundaries of the EBP paradigm and makes its prescriptions relevant to the solution a far greater number of business problems than those for which it has most often been used. There is a potential infinity of circumstances and factors which may impede growth for ventures at every stage of their life-cycles from introduction to maturity. Examples readily present themselves: a rapidly growing but currently self-funding company wins a big contract but cannot fund the working capital expansion needed to accept it because of bank perceptions of its creditworthiness; government regulations prevent capacity expansion of a
factory; whatever. The Entrepreneurial Business Planning paradigm can and ought to be viewed as a set of prescriptions for overcoming the impediments to growth pertaining in a given business situation.

Given this widening of perspective, the startup business situation becomes merely a specific sub-set of the larger general phenomenon - impeded growth - rather than the seminal basis of all EBP theory and practice. The dominant growth impediment factors for all startups centre on lack of sufficient initial investment and resources to sustain the new venture through the introductory and initial growth phases of their lifecycles and the effects of these constraints upon strategy and choice (see, for instance, Stevenson Roberts and Grousbeck 1989: chapter 2). But the generic point is this. Whenever growth has stalled sufficiently to threaten the continued viability of any venture - no matter what its past history or current status - that venture is forced to conceive of itself in new ways. It is, de facto, in the position of a new venture. And it is, accordingly, in the position to benefit from the process of Entrepreneurial Business Planning - the process by which new ventures plan to overcome the factors impeding their growth.

Thus, while it is technically a 'boundary' condition of the enhanced paradigm, the impeded growth axiom is scarcely a 'limiting' condition. It is a vastly liberating condition which will greatly expand the range of applications to which EBP techniques can apply. Chapter seven of this dissertation will explore just a few of them. There are two reasons that it is particularly important that EBP techniques be liberated from the constraints of applying mainly - or even exclusively - to the circumstance of 'startup venture seeks venture capital'.

(1) Most nations of the world outside the USA and a few major economies simply do not have a mature venture capital industry.

(2) 'Classic' venture capital - the VC model assumed by the prevailing EBP paradigm - is disappearing (Bygrave and Timmons 1992).¹

¹ In their comprehensive analysis, Venture Capital At The Crossroads, Bygrave and Timmons chronicle and analyse the changing structure and strategies of venture capital and warn that the value-adding focus of classic venture capital is in severe danger of being subsumed by an emphasis that brings 'only capital to venture capital deals' (324). At this stage of the thesis, it would confuse the thrust of the paradigm-enhancement argument to pursue the implications of the changing face of venture capital where it does exist and the implications for new venturing of the absence of venture capital where it does not. Readers may be assured that these vital issues are not lost to the argument. They will be strongly addressed in chapter seven where some major implications of the enhanced paradigm are examined.
4.1.2 Axiom 2: A Resource-Seeker/Investor Context

An Entrepreneurial Business Plan is a document whose sender is a resource seeker and whose audience is a potential investor (in the widest sense of investor meaning 'potential resource provider').

The arguments for this axiom have been fully developed in previous sections of the thesis, in particular, sections: 1.2.4; 1.2.5; 1.2.6; 1.2.11 and 2.2.1.

4.1.3 Axiom 3: Plan Writing Requires Business Sophistication

One of chapter three's major conclusions was that many of the weaknesses of the EBP paradigm are traceable to the fact that EBP authors 'pitch too low'. They assume too small a basis of business knowledge and sophistication on the part of their readers. While this may help to widen the audience and increase the market potential for a book, it also severely limits the power of the EBP prescriptions which can be proffered.

Given time and space, one could convincingly put the case for plan writer sophistication as a logical argument - elaborating upon the incompatibility of requiring little pre-requisite training in any business discipline of an author then expected to produce an integrated, multi-disciplinary argument capable of meeting the due diligence requirements of sceptical investors. However, this researcher considers it uncontroversial to state the proposition as a bounding axiom.

The individual or team who writes an Entrepreneurial Business Plan must possess a high level of business sophistication in - at a minimum - the disciplines of marketing, organisational behaviour, accountancy and finance and corporate strategy.

The definition of what constitutes 'high level' of understanding in these disciplines will always be problematic. The requisite degree of sophistication might be represented by stipulating possession of business qualifications, knowledge and experience - whether gained at university, in practice or by a combination of both - commensurate with a bachelor of business qualification from an internationally recognised university. This would be a sound predicate to learning the higher-order skills involved in combining many disciplines to produce an Entrepreneurial Business Plan.
The essence of the matter is that the skills of entrepreneurial business planning can only be acquired subsequent to a good basic business education, not prior to it or despite the lack of it.

4.1.4 Axiom 4: The Entrepreneurial Process Parameters Apply

A process cannot be classified as Entrepreneurial Business Planning unless all nine entrepreneurial process parameters apply.

These were presented, above, in section 1.2.2.

4.1.5 Axiom 5: Planning Is Strategic Programming

This is an overt adoption of the Mintzberg definition of planning, introduced in chapter one then discussed and elaborated in chapter two.

The essence here is that an entrepreneurial business plan is an articulation of the consequences of a given strategy (primarily in terms of financial expectations), not a means of strategy formulation.

4.1.6 Axiom 6: No Other Boundaries Fetter Applicability

The previous five boundary conditions are sufficient to define the EBP's domain of relevance.

4.2 EBP Paradigm Enhancement Methodology

4.2.1 The Specific Task Meets the General Problem of Qualitative Methodology

For as long as research will be conducted in the social sciences, there will be a debate between the relative merits of quantitative and qualitative research and it will always focus on the proposition that quantitative research (with data analysis grounded in parametric statistics and allied mathematical techniques) is somehow more reputable and its conclusions more reliable than qualitative research. In a work entitled *The Dilemma Of Qualitative Method*, *Herbert Blumer and the Chicago Tradition*, Martyn Hammersley (1989) made a significant contribution to the debate, focused on the history of the rise of a famous school of qualitative research which developed from
the work of Herbert Blumer, a seminal advocate of the efficacy of qualitative methods. Hammersley writes:

'\textit{The sources of qualitative method, and of the ideas surrounding it, are various, but one of the most important is what has come to be called "Chicago sociology". This originated in the Chicago Department of sociology in the 1920s and 1930s, and was transmitted to and developed by several generations of students at Chicago and elsewhere. Members of this tradition have not only produced studies that have served as exemplars of qualitative research, but have also written articles and books about qualitative methodology that have been used as guides by many neophyte qualitative researchers.}' (Hammersley 1989: 2).

Firmly in the Blumer-based tradition of 'Chicago Sociology' are two researchers, Glaser and Strauss, who expounded a series of techniques collectively known as 'Grounded Theory'. Since Grounded Theory has been this researcher's key method for enhancing the EBP paradigm, it behoves him to spend a short time in exposition of the methodology and criticisms of it, beginning by placing the use of qualitative methods in its largest methodological context. In so doing the author acknowledges the primacy of Hammersley's original and substantive work in this area.

The problem that Glaser and Strauss (1967) address in their \textit{Discovery Of Grounded Theory} is the same as that from which Blumer began his article 'What is wrong with social theory?' (Blumer 1954): the gap between social theory and empirical research; between the work of sociological theorists and that of empirical researchers. Glaser and Strauss contrast their (and implicitly Blumer's) approach to this problem with that of Robert Merton, in his famous articles on the relationship between theory and empirical research (Merton 1957). Merton poses the theorist's desire for knowledge having scope and significance against the empirical researcher's emphasis on demonstrability. He sets out to show that theory facilitates the development of empirical research beyond the production of isolated empirical generalisations; and that empirical research can, in turn, stimulate the development of theory as well as providing the means to test it. Merton's proposed solution was the development of what he called 'middle range theory': theory that is neither so abstract that it cannot be empirically tested, nor so concrete that it has little scope and significance. The development of such theory would be the result of collaboration between theorists and researchers.
Writing over a decade after Merton, Glaser and Strauss (1967) claim that the way in which sociologists - following Merton’s advice - typically seek to close the gap between theory and research is to take an existing theory, derived (for example) from the work of one of the founders of sociology, and to test small parts of it as rigorously as possible, usually via quantitative techniques. Glaser and Strauss argue that this frequently involves forcing data into pre-established theoretical categories, since the theory is taken as given and unchangeable. Moreover, the procedures integral to ‘rigorous testing’ militate against the development of better theory since the researcher is not allowed to deviate from initial research plans, whatever data collection throws up, for fear of undermining the rigour of the test.

These twin issues of 'developing theory' rather than 'accepting categories' and the necessity for a flexible rather than rigid research design are the key issues for the would-be enhancer of the EBP paradigm.

4.2.2 THREE PARADIGM ENHANCEMENT METHODS: LOGICAL CRITIQUE, MODEL APPLICATION AND GROUNDED THEORY

Naturally, for the paradigm enhancer, logical critique of the existing paradigm must play its part. Having discovered the prevailing paradigm, the researcher can challenge its tenets against such requirements as internal consistency and practical viability. Further, having established an analytical framework which embraces a model of planning (Mintzberg's), the researcher will make use of that model in enhancing the paradigm.

But beyond logical critique and model application (sufficient for critiquing the old) there is a need for application of a systematic research method for building the new.

For this task the researcher chose to apply Glaser and Strauss's principles of grounded theory. He did so well aware (thanks mainly to Hammersley's analysis) that the methodology had faults as well as merits, as the next sections indicate.

4.2.3 OVERVIEW AND MAJOR CLAIMS OF 'GROUNDED THEORY'

Glaser and Strauss's solution to the theory-building (in this research expanded to paradigm-building) problem is 'the generation of grounded theory'. By this they mean the stimulation and development of theoretical
ideas by the systematic investigation of the social world, usually by means of qualitative methods. This is contrasted with what they somewhat facetiously refer to as 'a proper theory' produced by armchair theorising which, they claim, 'verificationist' (usually quantitative) research relies on. Much of the argument for grounded theorising springs from the alleged anomaly that verification of theory is deeply 'justified' by statistical methods but the theories themselves have almost no basis other than the speculation of accepted theorists. It is a kind of rigorous testing of unrigorous propositions. The purpose of grounded theorising is both to produce effective theoretical ideas and to develop theories of wide scope, high density and integration.

Grounded theorising is inductive rather than deductive. By its very nature, and unlike quantitative theory testing, it requires flexibility, cannot be specified at the start, but must be worked out as the research proceeds in what is often referred to as a 'dialogue with the data'. Naturally, such research cannot and ought not try to base the validity of its conclusions on procedures designed to test hypotheses using quantitative techniques.

Glaser and Strauss make the large claim that empirical research following the guidelines of grounded theory not only usefully stimulates theoretical ideas but that ideas so stimulated and developed are likely to be more productive and to provide a better 'fit' with the empirical world than theory produced in other ways for two reasons. First, there is the claim that grounded theoretical concepts will necessarily be 'sensitising' - that is, 'yield a 'meaningful' picture, abetted by apt illustrations, that enable one to grasp the reference in terms of one's own experience' (Glaser and Strauss 1967: 38-9). Second, the notion of fit refers to what they call 'plausibility'. Although they recognise that the techniques they recommend for theory generation do not test the theory with the same degree of rigour as 'verificationist techniques', they claim that grounded theory will be more plausible than a priori theory and, indeed, once developed is unlikely to be refuted or transformed (Glaser and Strauss 1967:4 and 253-4). They argue that for most purposes it is not necessary to go beyond the level of plausibility provided by grounded theorising, and that the standard of rigour required in 'verification' is only necessary in special circumstances such as 'designing specific action programmes or working in rather well-developed substantive areas' (Glaser and Strauss 1967: 233).
In summary, Glaser and Strauss's *Discovery of Grounded Theory* argues that the best way to produce social theory that fits the empirical world is not to attempt rigorous testing of speculative theories, but to set out explicitly to generate grounded theory by systematic empirical research, primarily (but not necessarily exclusively, see Glaser and Strauss 1967: chapter 8) of a qualitative kind. While it is designed to develop theory, Glaser and Strauss argue that the process involves some testing too, and that it is often not necessary to engage in further testing. It is this latter contention which draws most criticism from those not inclined to accept Glaser and Strauss's methodological arguments. One such critic is Martin Hammersley (1989).

### 4.2.4 Hammersley's Critique of Grounded Theory

The major general methodological criticism levelled at Glaser and Strauss is that the approach to research they recommend is inherently non-cumulative since it is implied that every researcher must begin from scratch, ignoring all previous theory. However, Glaser and Strauss deny that this was intended, as Strauss makes clear in an article entitled 'Discovering new theory from previous theory' which appeared in a volume dedicated to Herbert Blumer (Shibutani 1970). There he shows how categories and hypotheses can be derived from existing grounded theory and that empirical investigation of these can lead to the further development of that theory, perhaps transforming it from the substantive to the formal level (see also, Strauss 1987).

While happy to accept Strauss's defence against this major general criticism, Hammersley is a strong critic of grounded theory in other respects. He argues that the essence of analytic induction is the hypothetico-deductive method, the logic of the experiment in the broad sense used by Blumer (1982) and Znaniecki (1934). This is conceived as the method of the natural sciences; and analytic induction studies are intended as applications of this method to the study of the social world (Lindesmith 1937). He argues that grounded theorising is a more complex case where Glaser and Strauss are equivocal about whether or not grounded theorising is a self-sufficient application of the hypothetico-deductive method. Furthermore, Hammersley is uneasy about Glaser and Strauss's wish to produce substantive theories that apply to a wide range of social phenomena, but which, at the same time, represent cases in their particular complexity. He is sceptical about the ability of the method to blend nomothetic and ideographic concerns.
What Hammersley objects to most is grounded theory's lack of specific, prescribed regimes for testing the theory it generates. That problem can be overcome. Cognisant of Hammersley's critique of the methodology and sharing his strong concern for the need to test theory, this author used grounded theory as one of the methods for developing an enhanced EBP paradigm. (As previously indicated, logical critique and model application were the others). He augmented this by employing Robert Yin's methodology of case research as a method for testing and critiquing the paradigm so developed. The case research forms the subject matter of chapters five and six. Paradigm development occupies the remainder of this chapter.

4.2.5 THE RESEARCHER'S EBP GROUNDED THEORY DATA BASE

Glaser and Strauss's prescriptions were applied to a number of cases drawn from the author's experience as a management consultant operating in the field of Entrepreneurial Business Planning and related fields spanning the period 1983 to 1995. Selection of cases was determined by the process of 'theoretical sampling', one of the two major techniques of grounded theory. It will be discussed, as a technique, in section 4.2.6, following. A listing of the cases which resulted from the theoretical sampling process and which together comprise what may be called the 'EBP Grounded Theory Data Base' is contained in appendix A-2.

Every one of these projects, in isolation and combination, was selected by and submitted to the structured regime prescribed by Glaser and Strauss for the development of grounded theory. Every project/case is embodied in a substantial analytical report, filed in the author's archives and amenable to scrutiny by bona fide scholars seeking to verify or build upon the research described in this dissertation. The list and summary contained in appendix A-2 will provide readers with an ability to assess the breadth and depth of the 'grounding' upon which the enhanced paradigm of Entrepreneurial Business Planning is based.

4.2.6 SUMMARY OF GROUNDED THEORY TECHNIQUES APPLIED TO THE DATA BASE

Aware of its strengths and weaknesses as a theory generation method, the author applied grounded theory to build and use a data base appropriate to the paradigm enhancement task.
Glaser and Strauss cite Weber on bureaucracy (Weber 1946), Durkheim on suicide (Durkheim 1897/1951), and Becker on moral entrepreneurs (Becker 1963) as examples of the generation of grounded theory, but in presenting detailed accounts of grounded theorising they concentrate, for reasons of access, on their own research, notably that concerned with the social processes surrounding dying in hospital. Moving from the particular to the general, there are two major techniques which Glaser and Strauss present as central to grounded theorising. They are the constant comparative method and theoretical sampling. The author discovered that, when one is in the act of building a grounded theory, these techniques are so closely interwoven that distinguishing them becomes irrelevant in practical terms.

The search for 'constant comparisons' drives expansion of the 'theoretical sample' and vice versa. The two techniques are so complementary that they meld. However, for purposes of methodological exposition, each technique will be summarised separately.

TECHNIQUE 1: THE CONSTANT COMPARATIVE METHOD

This is a procedure for generating categories and their properties. A category stands by itself as a conceptual element of the theory. A property, in turn, is a conceptual aspect or element of a category. (Glaser and Strauss 1967:36). Glaser and Strauss's account of the constant comparative method involves comparison of multiple data segments judged to belong to the same category, in such a way as to identify the central features of that category. Each incident is coded in terms of as many categories as are relevant, and all those instances assigned to a particular category are compared. In this way, a set of coherent categories is produced, along with their properties. Categories become the guiding criteria in the analysis of cases and these categories and their properties become integrated into a theoretical core. In this process, the number of categories may decline as underlying uniformities are discovered. The analysis of cases for any particular category proceeds only until the analysis seems to be producing no new properties, to the point of what Glaser and Strauss call 'theoretical saturation'.

For this researcher, the constant comparative method generated four categories. They will be presented and discussed, below, in sections 4.4.2 to 4.4.5, in the context of the larger regime which was employed to develop the enhanced EBP paradigm.
TECHNIQUE 2: THEORETICAL SAMPLING

The other technique essential to grounded theorising is theoretical sampling, defined by Glaser and Strauss (1967: 45) as follows.

'Theoretical Sampling is the process of data collection for generating theory whereby the analyst jointly collects, codes and analyses his data and decides what data to collect next and where to find them in order to develop his theory as it emerges.'

By contrast with representative sampling, this involves choosing cases in such a way as most effectively to develop the emerging theory. There is no population specified at the outset of the research. Rather, the researcher is continually sampling the views and behaviour of different groups as the research progresses, the nature of each population and sample being determined by what is required for further development of the theory. And the study of new cases continues, once again, only until the point of theoretical saturation. This contrasts with the procedure in random sampling, where every case within a sample has to be covered.

Theoretical sampling involves multiple comparisons of groups of attributes in which the researcher seeks to maximise or minimise the differences between the groups, according to requisite purpose at a particular stage of the research. Glaser and Strauss argue that, in the process of generating grounded theory, lower-level categories usually emerge initially, more abstract ones later. The researcher typically begins by minimising the differences between comparison groups so as to bring out the basic properties of a category; only then does he or she begin to make comparisons involving the maximisation of differences so as to discover the most universal uniformities.

This is the process which resulted in the compilation of the EBP data base listed in the previous section. Towards the end of the compilation, it was both obvious and satisfying to discover that the point of theoretical saturation had been reached: four categories (see, below, sections 4.4.2 to 4.4.5) provided the explanatory power to embrace all cases. The addition of new cases and analysis of them simply reinforced the all-embracing theoretical utility of the four categories but did nothing to suggest that any further categories could assist theory building.
TWO LEVELS OF GROUNDED THEORY

Glaser and Strauss distinguish two kinds of grounded theory, differing in their level of abstractness. Substantive theory is concerned with relatively concrete areas such as patient care, classroom interaction in schools, or race relations. Formal theory, at a more abstract level, relates to such topics as stigma, deviant behaviour, formal organisations and so on. Formal theory is usually generated from substantive theory, although it may sometimes be generated directly. Formal theories cannot always be applied simply to substantive areas; rather, substantive theories must be generated for each empirical situation and selection then made among formal theories or a new one developed.

This researcher found that, because of the very nature of the EBP field and because paradigm building goes beyond theory to the provision of practical success prescriptions, Glaser and Strauss's distinction between substantive and formal theory was much more of a moot point than it might possibly be in other fields. The author found that every attempt to break the grounded theoretical categories of his developing EBP paradigm into 'substantive' and 'formal' components resulted in semantically confusing verbiage rather than practically illuminating insight. Commentators may care to argue whether the theory embodied in the enhanced EBP paradigm which emerges at the end of this chapter is 'substantive' or 'formal'. Simply stated, the author believes that it is both. It is tentatively formal in its quest for universality and demonstrably substantive in its very specific statement of boundaries, laws and success rules. (See, below, section 4.5, passim, and exhibit 4-3 in particular).

TECHNIQUE APPLICATION SUMMARY

The two major grounded theory procedures were employed to create and analyse the cited EBP data base and, in conjunction with logical critique of the old paradigm and application of prescriptions informing the Mintzberg planning model (see above, chapter two, passim), and the Lasswell communications model (Lasswell 1948)\(^2\), generated the enhanced paradigm of Entrepreneurial Business Planning presented in subsequent sections of this chapter. The experience of applying grounded theory principles to his experiential EBP data base has led the author into strong agreement with

\(^2\) More detail on the incorporation of Lasswell's ideas into the exposition format of the enhanced paradigm will be provided, below, in section 4.3.3.
Strauss's contention that, in empirical theory building the basic question facing us is how to capture the complexity of the reality we study, and how to make convincing sense of it.

'... a theory, to avoid simplistic rendering of the phenomena under study, must be conceptually dense.' (Strauss 1987:10).

The following sections of this chapter articulate in detail the procedures employed to establish conceptual density for the enhanced EBP paradigm.

4.3 CRITIQUE OF THE DISCOVERED EBP PARADIGM

4.3.1 SUMMARY OF LOGICAL CRITIQUE

* Reject law 1: 'Do it yourself'.

The discovered EBP paradigm was presented, above, in exhibit 3-26.

The first criticism, in purely logical terms, of the discovered EBP paradigm's laws and success rules centres on the 'do it yourself' prescription. The underlying motive of this maxim is laudable. It is that the plan should be the entrepreneur's own plan; one which the entrepreneur comprehends in all its detail and about which the entrepreneur feels a great sense of proprietorship. In other words, entrepreneurial business planning must be a deeply involving activity. It is not an exercise which can be done at arm's length. All this is the spirit of the precept. However, taken literally (and many EBP authors insist that it be so taken) the precept lacks logic, viability and reality. Empirical evidence of startups shows that a lead entrepreneur is likely to possess one dominant skill (intimately connected with the product or process improvement at the heart of the innovation upon which the new venture's distinctive competence is to be based) but that many generic business skills (in the fundamental areas of marketing, accountancy, organisational behaviour, corporate strategy, accountancy and finance) are likely to be entirely absent. In brief, most startup entrepreneurs are not holders of graduate or post-graduate degrees in business possessing great depth and breadth of diverse commercial experience who are also excellent writers. Unless the missing skills are supplied by others, it is a logical inference that 'do it yourself' is more often than not a prescription to 'do it badly'. The enhanced EBP paradigm will therefore dispense with any literal commitment to this prescription while retaining the spirit of the
injunction. 'Doing it yourself' is not the point. The point is that the entrepreneur/planner ought to strive to build a team, in which he or she is intimately involved, whose members contain a mixture of all the skills required for the production of an entrepreneurial business plan which is detailed and professional in all requisite disciplines and components. The team may be as small as one (if the entrepreneur genuinely does possess all requisite skills) or two (if the entrepreneur can find a single consultant, co-venturer or other ally who can supply all missing skills). Or it may consist of many members - if that is what is required to be thorough and professional in every aspect of the plan.

- **Reject law 3: 'Keep it short'.**

The second prescription of the discovered EBP paradigm to be rejected - simultaneously on logical grounds and with reference to the experiences encountered in the grounded theory data base - is the 'keep it short' prescription. This, it will be remembered usually translates to 'make it less than 40 pages'. The rationale most often proffered for this maxim generally runs along the lines that venture capitalists are busy people and that, if a plan is too long, they simply will not have the time or make the time to read it. The logic seems plausible but is spurious. Logically and experientially, likelihood that the plan will be read by a *bona fide* potential investor is not increased by setting *absolute* length as an arbitrary and universal word-volume criterion, but will be increased by a document embodying *appropriate* length as a function of the venture's degree of complexity and the target audience's qualified stage of interest. Even one page is too long if the plan is presented in the wrong way to an uninterested or unqualified (in the sense of not being a *bona fide* potential investor) reader. Five hundred pages may be two shallow a level of documentation for a deeply interested prospective investor who is immersed in a detailed process of due diligence.

The 'keep it short' law of the discovered paradigm should be replaced by prescriptions based on recognition that an EBP communication should be tailored to the information needs of its audience and that these needs are a function of the stage of involvement which the recipient has with the proposals contained in the plan. A one page summary (containing a summary of the plan and its offer) may be the appropriate length for initial communication to a large, early-stage audience whose various levels of interest have not yet been ascertained by the entrepreneur. Once
prospective investors and their levels and directions of interest have been identified and qualified, a longer document (how long will always be a matter for judgement in specific circumstances) will be appropriate. The enhanced EBP paradigm will replace any arbitrary prescription as to plan length and replace it with a prescription to 'create investor confidence by providing flexible credibility' (see, below, section 4.4.2).

- Reject success rule 1: 'Employ a standard table of contents'.

This proposition falls to the ground by virtue of many of the same arguments which rejected the 'keep it short' law. The essence of rejection is that insistence on the same, formulaic, rigid table of contents (and, therefore, the same document design) for every Entrepreneurial Business Plan flies in the face of the need to tailor the particular communication to a particular target audience's needs and a particular venture's circumstances. It is a rejection of one of the nine parameters of entrepreneurial process (see, above, section 1.2.2): that every entrepreneurial process is a unique phenomenon. So, the enhanced EBP paradigm rejects the 'standard table of contents' prescription while retaining empathy for the spirit which infuses it: a spirit which may be summarised as a legitimate desire to 'be comprehensive'. However, that spirit is already well represented by law 4 of the discovered paradigm which says, 'the plan must involve multi-disciplinary integration'. This latter prescription will be fully retained by the enhanced EBP paradigm (though expressed somewhat differently).

The cause of multi-disciplinary integration is damaged not facilitated by the 'rigid table of contents' maxim. A good job of integrating the relevant disciplinary components into the relevant presentation mode for the relevant audience requires flexibility and creativity, not rigidity. A ritualised incantation of the same ingredients, accorded the same weights, in the same old way for every case irrespective of circumstances is a recipe for reductionism, not integration and thus violates yet another entrepreneurial process parameter: that entrepreneurship is a holistic process.

4.3.2 SUMMARY OF PLANNING-MODEL CRITIQUE

- Improving perception of success rule 4:
  'All plan sub-components have equal importance'.
Critique of this proposition involves re-visiting the arguments (derived from the Mintzberg model and employed in the analytical framework) which were detailed in sections 1.2.5 and 2.2.1, above. In brief, since - in the planning motives of entrepreneurial firms - primacy is accorded to an appeal to external audiences whose needs are primarily for financial information, it is clear that the financial components of the plan are among its principle outputs. This would seem to define finance (including applied accountancy in the form of an integrated suite of proforma financial statements) as potentially more important than other disciplines. However, that would be to confuse the peculiarly symbiotic relationship between outputs and inputs in the EBP process.

Technical excellence in finance and accountancy are not negotiable. The value of all high-quality inputs would be destroyed by low-quality financial processing. But - given that the required level of financial competence were in place - high-quality financial processing of inferior marketing, organisational or other data would be equally inimical to production of a good plan. Does this lead back to the proposition that in the multi-disciplinary tasking environment of the EBP process 'all disciplines are of equal value'?

The answer lies in rejecting the utility of the question.

To rank the importance of disciplines in the planning process is as silly as to try to argue that the heart is a more vital organ, than the brain, than the kidneys and so on. Vitality is indivisible. Remove any vital organ and the whole patient will die, by definition. In Entrepreneurial Business Planning, the important thing is not to rank the disciplinary skills requirements against one another as though they were competitors, but to perceive:

(1) the distinctive contribution which each discipline must make to the integrated effort and
(2) the role of finance (including applied accountancy) as the co-ordinator between all other disciplines.

Finance is the only 'output' discipline - that is its singularity. All the others (marketing, organisational behaviour, corporate strategy and any which are relevant to any given venture in its particular circumstances) share the commonality of being input disciplines. Recognition of this co-ordinating role is no less valuable for being very obvious. It provides the researcher with the ability to specify the principal instrumentation requirement of the
EBP paradigm: a comprehensive financial model. The need for such a model also emerged from the grounded theory process and became the third mandate of the enhanced paradigm (see section 4.4.3, below).

4.3.3 SUMMARY OF COMMUNICATIONS MODEL CRITIQUE

- The entire discovered EBP paradigm.

In Mintzberg's model, the first role of any plan is as a communications medium. Among the many authors who have written in the EBP field, there is nearly universal and entirely uncontroversial consensus that, among the many roles of an Entrepreneurial Business Plan, one of the most fundamental is its role as a marketing communications medium. It is a document wherein an entrepreneur endeavours to sell an offer of participation to a potential investor. Therefore, a general communications model adapted to marketing needs would have obvious relevance to the EBP paradigm enhancement process. Such a model exists.

Many communications theories employed within the business disciplines - especially theories of marketing communications - build upon some variant of the communications model first espoused by Harold Lasswell in the 1940s. The seminal reference is: Lasswell, Harold 1948: Power And Personality. New York, W.W. Norton and Company Inc. - especially pages 37 to 51 where five essential ingredients of the model are established: who ... says what ... in what channel ... to whom ... with what effect. The model has been much criticised, modified and embellished but still lies at the heart of most theoretical expositions and prescriptions of marketing communications procedure. One of the longest established and easy-to-apply variants of the Lasswell communications model is that espoused by Philip Kotler. It is well-known to the thousands of marketing students who have encountered any edition of the many marketing textbooks he has co-authored. Exhibit 4-1, on the next page, sets out a diagrammatic representation of the Kotler version of the Lasswell communication model. It illustrates a model which describes the communication process as a system which links eight key elements.

3 The ranks of embellishers include the author who has made a published contribution to marketing communications theory - Hindle, Kevin G. 1987: 'Mr Lasswell Battles the P.I.G.S. Towards a Method for Anticipating Non-Target Audience Reaction To Market-Segmented Communications In Mass Media', Australian Marketing Researcher, vol. 11, no. 1.

EXHIBIT 4-1

THE KOTLER VERSION OF THE LASWELL COMMUNICATIONS MODEL

(Source - Kotler, Fitzroy, Shaw 1980: 378)
Those eight elements are:

- a defined sender;
- an articulated encoding process created by the sender;
- a defined medium;
- a message (which is output of the encoding process);
- a defined receiver (i.e. 'target audience');
- a decoding process applied by the receiver;
- a response given by the receiver;
- and, finally a process of feedback which enables the sender to present further messages based on greater empathy for the receiver's needs and modes of perception.

This structured theory of the communications process has proved to be extremely useful to this researcher for both critique and logical enhancement of the discovered EBP paradigm.

Clearly a major weakness of the discovered EBP paradigm is that, lacking any theoretical justification for any of its precepts, it possesses no articulate regime underpinning its communications prescriptions. The enhanced paradigm, inter alia, is charged with the responsibility to operationalise the communications role which is such a vital component of Mintzberg's planning model. Accordingly, the author elected to sub-classify the communications ingredients of his enhanced EBP paradigm according to their Lasswell-Kotler categories (refer, below, to exhibit 4-3 of section 4.5 which presents the completed synthesis). The medium is, of course, the plan itself. By definition, the decoding process and the nature of a particular response cannot be specified by the paradigm because those variables are exogenous to it. All other elements of the Lasswell-Kotler communications model are useful tools for articulating the enhanced EBP paradigm and were employed, within the analytical framework, as sub-categories of the paradigm's communications' boundaries, laws and success rules.

It is worth noting that the strongest interface between the Lasswell-Kotler model of the communications process and the Mintzberg model of planning-plans-planners is the fact that both place a central emphasis on the process of encoding. It will be remembered (see, above, section 2.2.3) that the first of three steps which Mintzberg specifies as comprising the planning process is 'codifying'. The Lasswell-Kotler model locates that step in precise contextual relationship to all other facets of the communications process and thus is a great aid to the task of providing a succinct, clear and well-
structured description of the communications mandates of the enhanced EBP paradigm.

4.3.4 SUMMARY OF GROUNDED THEORY CRITIQUE

As indicated (section 4.2.6, above), grounded theory techniques were used primarily for adding new components (theoretical categories) to the 'new' EBP paradigm rather than critiquing the 'old' paradigm. So, their contribution in the critiquing regard can be summarised very briefly indeed: they provided empirical verification of the logical and model-based critiques of the discovered paradigm presented in the two previous sections.

4.4 DEVELOPING THE ENHANCED EBP PARADIGM

4.4.1 APPLICATION REGIME: ARTICULATE PARADIGM MANDATES THEN FIT AXIOMS, CRITIQUE AND GROUNDED THEORY TO THE ANALYTICAL FRAMEWORK

It is now time to report upon the application of research and critique results to the production of an enhanced EBP paradigm. Since the application regime is complex, involves several stages and combines several methods, this section of the chapter provides the reader with an overview. Subsequent sections report, in detail, upon each of the several stages which comprise the total application process.

First, to the overview.

The regime adopted for paradigm enhancement is a logical consequence and combination of the major research components so far completed. An analytical framework is in place. Axioms have been established. An existing paradigm has been discovered and subjected to criticism. And grounded theory techniques have been applied (though the results of application have not yet been fully reported - sections 4.4.2 to 4.4.5 will do that) to a relevant experiential data base. The dissertation must now proceed to the amalgamation of these components. Axioms, critique of the discovered paradigm and the results of grounded theorising must be scrutinised by, and fitted to, the analytical framework.

Sub-sections 4.4.2 to 4.4.5 present the results of the grounded theorising in the form of four Entrepreneurial Business Planning mandates: four prescriptions which emerged from the grounded theorising process as
having the status, simultaneously, of fundamental grounded theory categories and fundamental practitioner imperatives. These mandates were:

- operationalise the sender's need for resources;
- operationalise the receiver's need for due diligence;
- create a comprehensive financial projection model;
- operationalise the power of simulation.

Derived from application of the constant comparative method and theoretical sampling, these 'categories' (in the Glaser and Strauss technical sense) form the grounded basis of a theory and, beyond it, a paradigm of Entrepreneurial Business Planning. A 'category' (it will be remembered from section 4.2.6, above) 'stands by itself as a conceptual element of the theory' and is subdivided into 'properties'. These grounded theory properties will then need to be deployed into appropriate 'cells' of the three-by-four matrix which constitutes the analytical framework of the EBP paradigm. But before this can be done, one task remains. Since the fourth mandate is to 'operationalise the power of simulation', and a paradigm must specify success rules, it is incumbent on the EBP paradigm enhancer to specify a way to operationalise the power of simulation. Section 4.4.6 presents a theoretically-grounded way to do this: the ECIPP\(^5\) method of dynamic due diligence.

By the time this stage has been reached, all research endeavours will be in a position to be synthesised into a comprehensive presentation of the enhanced Entrepreneurial Business Planning paradigm. Section 4.5 performs the synthesising task by applying the analytical framework (developed in chapter 2) to the results of the combined research efforts of discovery (chapter 3), and critique and grounded theorising (this chapter). This process results in exhibit 4-3 which encapsulates the enhanced EBP paradigm in a schematic embracing all its boundaries, laws, success rules and instrumentation requirements.

That is the procedural overview.

Now to the detail.

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\(^5\) ECIPP is an acronym standing for: Establish mandates; create financial projections; identify issues; prioritise procedures; perform procedures.
4.4.2 FIRST MANDATE (COMMUNICATIONS):
OPERATIONALISE THE SENDER'S NEED FOR RESOURCES

The first conceptual category/mandate produced by the grounded theorising process was the essential requirement to 'operationalise the sender's need for resources'. Of course, it is necessary not just to state this operationalisation need but to make it actionable.

Subjecting the EBP database to the constant comparative method generated a category capable of activating the mandate. A succinct category description is provided by the phrase: 'provision of flexible credibility'. The business plan must have sufficient detail and plausible argument to make the achievement of its 'base case' scenario seem both likely and attractive (in and investment sense) to the plan reader (a prospective investor in the venture). This 'credibility quotient' is necessary but not sufficient. The plan must also be flexible. It must be able to adopt and adapt the reader's criteria. A plan 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. Such a plan was the Savva Ceramics Business Plan (see above, section 4.2.5). Here, the entrepreneur's 'vision' (or 'lack of flexibility', depending on one's point of view) was intransigent. If he could not find an investor willing to do things exactly his way, he did not want the investment. The business plan, chained to inflexible fetters, failed to attract an investor and the venture proceeded to failure. Close analysis of all the venture plans which resulted in successful attraction of required resources indicates that flexibility - the capacity to embrace quickly and quantify in detail the potential investor's requirements and perspectives into a modified version of the original submission - is a sine qua non of success.

Thus the enhanced EBP paradigm posits that an Entrepreneurial Business Plan operationalises the need for resources by provision of 'flexible credibility'. Initially, credibility springs from providing a convincing measurement of the volume of funds required to achieve venture objectives. (A common weakness here is to seek too small a level of funding). Subsequent credibility is built by the plan's capacity to adapt. In communications terms, the first version of the written plan now assumes the role of opening address in a constructive dialogue; not final oracular proclamation requiring only assent or dissent.
As finally incorporated into the enhanced paradigm, the essence of this grounded theory category spans and infuses several communications laws and success rules (see section 4.5 and exhibit 4-3, below).

4.4.3 SECOND MANDATE (COMMUNICATIONS AND CONTROL): 
OPERATIONALISE THE RECEIVER'S NEED FOR DUE DILIGENCE

The basis of all finance and investment theory is that rational investors require reassurance that the return of an investment is likely to offset the risks inherent in it. In the worlds of both venture capital, and mergers and acquisitions, the process of assessing risk and return and translating it into a required rate of return for the taking of a stake in an investee company and then embodying that required rate into a deal structure or a deal rejection is called 'due diligence'. There are two prevailing generic methods for conducting a due diligence investigation. To present them at this stage of the argument for the development of the enhanced EBP paradigm would represent too lengthy a sidetrack. They will be discussed in detail in a more appropriate place (see, below, section 7.3.1). This section, at this stage, can rest content with simply stating (rather than exploring) the second paradigmatic mandate which emerged from grounded theorising: every EBP plan must operationalise the due diligence requirements of its target audience.

Application of the constant comparative method and theoretical sampling produced this category/mandate which embraces two closely related and constantly demonstrated properties.

(1) The fundamental need of an EBP receiver is for 'due diligence'.

(2) The fundamental output of an Entrepreneurial Business Plan, ('message' in formal communications model terms) is the creation of investor confidence.

The corollary of these properties is that the key measurement of the level of investor confidence is the volume of funds obtained when the venture deal is done.

Finding a neat, singular phrase to encapsulate the essence of this grounded theory category is not easy because what is mandated is a very plural concept. Perhaps the phrase 'be pro-active about an investor's due diligence
requirements' covers it. For example, in say, the marketing area, it is bad
business planning practice to simply present projections of marketing
variables, even if accompanied by the rationale that produced them. It has
to be a testable rationale, replicable by the reader. In other words, the plan
must include both regimes for objectively testing the probability of
achieving projections and convincing evidence that the regimes were
applied. In simpler terms, the aim is to anticipate the target investor's due
diligence questions and provide answers to them before they are asked. It
almost gets back to that wonderful old Spanish maxim:

'If you want to be a bullfighter, first learn to be a bull.'

The plan writer must write with total empathy for the prime requirement
of the plan reader: due diligence. Section 4.4.6, below, will shortly prescribe
a regime which enables this to be done. But, first, execution demands
possession of a tool - a comprehensive financial projection model, described
in the next section.

4.4.4 THIRD MANDATE (INSTRUMENTATION):
EMPLOY A COMPREHENSIVE FINANCIAL PROJECTION MODEL

The third category/mandate generated by applying the constant
comparative method to the grounded theory data base, stipulates the
instrument required to achieve the first two. The prime mechanism for
achieving 'flexible credibility' (first mandate) and for being able to address a
prospective investor's due diligence requirements (second mandate) is the
necessity to create and employ a comprehensive financial projection model
of the subject venture.

In order to maintain the thrust and main direction of a complex multi-
faceted argument leading to a statement of the enhanced EBP paradigm, the
author believes it prudent to present, in this section, nothing but the 'barest
bones' of a description of what is meant by 'comprehensive financial
projection model'. Detailed treatment of the revelation and application of
the properties involved in this grounded theory category are contained in
appendices A-3 and A-4.

Appendix A-3 is entitled: A Practical Philosophy Of Entrepreneurial
Proforma Statements. It presents a detailed articulation of the grounded
theory of financial modelling which emerged from the research.
Appendix A-4 is entitled: *FIPRAL - An Entrepreneurial Financial Modelling System (Illustrated Using Data And Projections From The Wirrilla Case Study).* It is a computer disk containing the financial modelling system invented by the author and named FIPRAL (short for 'financial projection and analysis').

Readers requiring detailed exposition of the properties which comprise a definition of 'a comprehensive financial projection model' may care to examine these appendices before proceeding to the subsequent sections of this chapter. Others may prefer to make do, at this stage, with the following succinct summary of the author's grounded philosophy and practice prescriptions for financial modelling within the EBP process.

The general rule is that the entrepreneurial financial modeller needs skill in using a sensitive, highly adaptable and comprehensive financial modelling tool - not a crude, simplistic one. Since many mass-market, pre-fabricated financial planning models are very limited devices, this prescription effectively mandates that the Entrepreneurial Business Planner have considerable ability in using spreadsheets (such as Microsoft Excel or Lotus 1-2-3) combined with a high level of professional skill and acumen in both accounting and finance. To accommodate these requirements, the author has built (and continues to develop) a purpose-designed EBP financial forecasting model which is now registered under the name FIPRAL (refer to appendix two). All financial projections for cases in the dissertation (see chapters 5 and 6 below) and all financial forecasting conducted for clients of the author's consulting practice employ FIPRAL for complex financial modelling. Of course, no claim is made that FIPRAL is the 'best' or the 'only' instrument for creating the integrated financial proformas required of an Entrepreneurial Business Plan. But it represents an indicative (rather than prescriptive) translation of the *philosophy* of entrepreneurial financial projection (see appendix one) into *realised* proforma statements.

In summary, appendix one presents the generics of what a comprehensive financial projection model *ought* to contain. Appendix two presents a specific illustration - the FIPRAL model - of *how* to do it and the type of sophisticated and adaptable output which emerges when it is done.

---

6 The Wirrilla Case, itself, is one of the four cases to be presented as tests of the enhanced paradigm in chapter 6, below.
All three results - the general *ought to*, the general *how to* and the specific *what* - emerged from grounded theory.

4.4.5 FOURTH MANDATE (CONTROL & SIMULATION):
OPERATIONALISE THE POWER OF SIMULATION

Thankfully, the fourth grounded theory category/mandate is easy to state. It is the imprimatur to operationalise the power of simulation inherent in possession of a comprehensive financial model of the venture.

By definition, such a model is capable of an infinity of simulations: inputing different data will produce different financial projections. Grounded theory investigation indicated that this ability to operationalise the power of simulation had the status of a category (in the Glaser and Strauss sense). There are two major properties of this category.

1) The first property is the ability to produce as the core modelling output, a 'base case' scenario which should (given that requested resources are forthcoming), in the plan writer's considered evaluation, represent the venture's most likely feasible future. As previously discussed, this scenario commences a dialogue with investors whose perspectives, responses and queries can then be used to forecast multiple alternative scenarios.

2) The second, corollary, property resulting from operationalising the power of simulation will be: the capacity to gain flexible perspectives on the desirability and feasibility of the new venture.

The question which remains to be answered might be called a mandate-linking question:

'Given the possession of a comprehensive financial model (mandate three) with its inherent capacity to operationalise the power of simulation (mandate four), how does one combine these prescriptions to achieve operationalisation of the receiver's need for due diligence (mandate two),'

Using inference from the grounded theory data base, the author has developed a systematic answer to this vital question. Called the ECIPP method of dynamic due diligence and presented in the next section, it
provides the final link needed to complete the chain of argument leading to an enhanced EBP paradigm. It performs the integrating function. It presents a regime for combining all four separate grounded theory categories into a united whole: it is the mortar which binds the final building blocks to the structure.

4.4.6 A WAY TO IMPLEMENTATION: THE 'ECIPP' METHOD OF DYNAMIC DUE DILIGENCE

- OVERVIEW: A FIVE PHASE METHOD OF DYNAMIC DUE DILIGENCE

Limits of Claim. The most important thing to recognize about the author's claims for the ECIPP method about to be presented as a way to operationalise the power of simulation is that he posits it as a way; not THE way. The ECIPP procedure has sufficient integrity to qualify as a discovery of action research and a distinct due diligence method but many of its elements (though not necessarily their combinatory relationships) are well-established procedural principles of good accounting and finance practice.

The Need for Focused Detail. A study of the due diligence phenomenon reveals that two generic due diligence execution methods are already in existence. The first, distilled from the realms of finance theory, tends to be painted with a very broad brush whose bristles consist of standard capital budgeting procedures using discounted cashflow analysis techniques based on pre-determined hurdle rates. The virtues are simplicity and elegance; the vice is abstraction. The second method, distilled from the practice of professional investor organisations, has the virtues of thoroughness and concreteness but the vices of rigidity and inefficiency. It was discovered that neither established method - for reasons which will be presented in section 7.3, below - adequately fulfils the requirement of integrating the four grounded theory mandates presented in the preceding sections. The researcher was forced to develop an alternative approach. It results from what he calls 'creative obedience' to the mandated need to possess a comprehensive financial model and provides a remedy against the inefficiency and over-generality inherent in both existing due diligence regimes. There are five phases to the proposed method, illustrated as a simple flowchart in exhibit 4-2. It may be called the 'ECIPP' method of dynamic due diligence - an acronym formed from the five procedures which comprise it: Establishing mandates; Creating projections; Identifying issues; Prioritising procedures and Performing them.
EXHIBIT 4-2
THE FIVE PHASES OF DYNAMIC DUE DILIGENCE

1. ESTABLISH MANDATES
2. CREATE PROJECTIONS
3. IDENTIFY ISSUES
4. PRIORITISE PROCEDURES
5. PERFORM PROCEDURES

• PHASE 1: ESTABLISH FINANCIAL PERFORMANCE MANDATES

The plan writer employs empathy for the requirements of the target audience for whom the plan is to be written. He or she selects those assumptions (within the bounds of commercial reality) which reflect minimum performance which the business must achieve for it to be a viable investment by the potential investor's standards. For instance, in the ChildCo case, (see, below, section 6.5) Mr. Able, managing director of the potential acquirer, determined, inter alia, that the current price paid for inventory by the subject venture (58% of gross sales) was too high and that he needed to be able to buy at prices averaging no higher than 54% of gross sales. And so on.

The generality is this. On any financial point whatsoever, the planner 'reading the mind', as it were, of the target audience with respect to that point, is free to state - and build into the first-round forecasting assumptions - those requirements. At this early stage, one can be arbitrary: there is no need, yet, to estimate what is likely to happen; or what could happen; or anything else. Simply, what must happen for the potential investor to be willing to invest. There is no pretence about 'research' here. The planner, acting a priori with the mind of the investor, is being deliberately arbitrary and prescriptive. The planner establishes a benchmark; saying, in effect: 'unless the venture can achieve this investor requirement, with respect to
this particular criterion, the investor will not deem it worthy to invest. We will worry, later, about whether the venture can achieve the criterion. For the time being, we will simply prescribe that, at a minimum level of performance, the subject venture must achieve the criterion. And that projected achievement is entered as a data item.

- **Phase 2: Create 'First Round' Projections**

After all such investor financial performance requirements have been articulated, it is time to use one's financial modelling system to produce the first integrated output, incorporating all relevant data and assumptions needed to project three integrated, proforma financial statements (income statement, cashflow statement and balance sheet) for each of the next, say, five years (or whatever period is deemed to constitute the appropriate forward-planning time horizon). As discussed, the financial forecasting model employed to do this should be capable of answering 'what if' questions by embracing all effects of later data and assumption changes. To re-iterate the main point which cannot be over-stressed: this 'first round' of projections has the sole purpose of incorporating the minimum performance criteria deemed acceptable to the prospective investor for whom the plan is intended to be written.

Once the full, integrated implications of these combined minimum performance criteria are set before the plan writer's eyes - in the form of mutually interdependent proforma financial statements - he or she can do a preliminary, summary evaluation of whether it is worthwhile proceeding to the next stage of the investigation. Presuming it is worthwhile, the evaluator progresses to phase three.

- **Phase 3: Identify 'Due Diligence' Issues**

Now comes the time to challenge and refine the initial assumptions which produced the acceptable 'first round' proforma statements. Having begun by placing the cart before the horse - setting financial targets in the absence of evidence to support their marketing, organisational and strategic credibility i.e. as a form of venture screening\(^7\) - the potential acquirer now

\(^7\) To stray too far into the field of venture opportunity screening at this stage of an already complex train of argument, would be counter-productive to an efficient presentation of the concluding stages of that argument. Three points only need be made. The first is the obvious one that, if an initial opportunity screening indicates the non-desirability or non-feasibility
proceeds, in this and subsequent stages, to put matters in a more realistic perspective.

Using the financial model to perform sensitivity analyses, the evaluator identifies the crucial issues which will affect the subject venture's ability to achieve the 'first round' projected performance. A list of these key issues then becomes an agenda of items requiring the application of 'due diligence': further detailed investigations which go beyond the initial assumptions shaping the financial projections, to identify the strategic, marketing and organisational issues and risks which will determine the hard, commercial probabilities of achieving the projected numbers. The issues of highest sensitivity (those for which the smallest changes have the highest impact on desired measures of financial performance) then assume the highest priority for 'due diligence' investigation and the plan writer's attention. It is now possible to prescribe procedures for actually performing the indicated due diligence.

- **Phase 4: Prioritise 'Due Diligence' Procedures**

These procedures should be split into two categories: in-house and ex-house. In-house due diligence procedures include all investigations and assessments which can be done by the entrepreneur and his or her venture allies. This will include desk research, collection of publicly available statistics, interviews with customers of the potential acquiree, etcetera. Ex-house due diligence procedures include all investigations and assessments which can be performed only by purchasing the expertise of outside suppliers (consultants, marketing researchers etc.). Where ex-house due diligence is indicated, the cost of obtaining desired information must, of course, be weighed against the value of the information - the lowered risk of improved financial assumptions and data.

The prioritised procedures, in order of their financial sensitivity, can then be articulated in a simple tabular construct which the author calls a 'due diligence matrix'. An illustrative example of a due diligence matrix is
provided, below, in section 6.5, a case study which is a direct test and demonstration of the ECIPP method.

• **PHASE 5: PERFORM PROCEDURES AND AMEND PROJECTIONS**

This stage is self-explanatory. Once the due diligence issues and procedures for investigation have been identified, the next step is, obviously, to perform the work and incorporate findings into improved pro forma financial statements. At this stage, a 'base case' scenario will have been articulated and, accordingly, the basis for detailed investment decision making will be in place.

### 4.5 SYNTHESIS: AN ENHANCED PARADIGM OF ENTREPRENEURIAL BUSINESS PLANNING

#### 4.5.1 THE SYNTHESIS: AN ENHANCED PARADIGM OF ENTREPRENEURIAL BUSINESS PLANNING

Every discovery and argument can now be encompassed by the analytical framework. This is done in the following four sections which culminate in exhibit 4-3 on page 127, below, which presents all boundaries, laws, success rules and instrumentation requirements of the enhanced EBP paradigm. To provide contrast between the 'new' and the 'old' paradigm, exhibit 3-26, which contains the discovered paradigm resulting from the content analysis reported in chapter three is reproduced, on page 126. Thus, in 'double-page spread', at the very end of the chapter, the reader can have both paradigms - the 'old' and the 'new' - fully in view for easy comparison.

For the most part - given the long chain of preceding evidence and discussion which has led to it - the prescriptions of the enhanced paradigm need little further commentary beyond their mere presentation. The majority of enhanced EBP paradigm prescriptions will be very familiar to a reader who has, in the previous sections of this chapter, followed the arguments which produced them.

Brief further discussion of some points is warranted under the four analytical-framework headings of: *boundaries; laws; success rules* and *instrumentation requirements.*
4.5.2 STATEMENT AND DISCUSSION OF PARADIGM BOUNDARIES

(1) Communications Boundaries

Receivers in general (total audience).
At the most general level, receivers of an EBP communication are 'investors' - defined, broadly, as 'potential providers of the funds or resources not currently controlled but needed to achieve identified plan objectives.' Section 1.2.5 and 2.2.1 (quoting Mintzberg 1994: passim), above, articulated the arguments pertaining to the establishment of this boundary condition.

Receivers in particular (sub-audiences).
A tailored version of the plan should be targeted to each sub-audience distinct enough to warrant a separate investment offer.

Definition of the sender (business plan writer).
(1) The communication-sending entity is an entrepreneurial individual or team seeking resources required to remove impediments to growth.
(2) The required communication-sending attribute is business sophistication; i.e. possession of both depth and breadth of generic business skills as well as all required venture-specific skills.

(2) Control Boundaries

The fundamental defining circumstance.
This is 'impeded growth', as elaborated in section 4.1.1, above.

Entrepreneurship process boundaries.
The nine entrepreneurial process parameters (identified by Bygrave and Hofer, see section 1.2.2 above) must apply.

Defined limits of planning as a process.
Planning is strategic programming - not strategy formulation - (this is the essence of Mintzberg's approach to planning, plans and planners as presented in chapter 2, passim, above).
(3) Simulation boundaries

There are no simulation boundaries.
This is axiomatic. The whole purpose of simulation is the ability to be completely unfettered: to project an infinity of scenarios.

4.5.3 STATEMENT AND DISCUSSION OF PARADIGM LAWS

(1) The Eight Communication Laws

Encoding laws.
Law 1. Codify the selected strategy as a multi-disciplinary continuum.
Law 2. Integrate the codified strategy as a 'base case' scenario.
(Note, obeying this law is intimately linked with simulation success rule 6).

Message content laws.
Law 3. Nominate the intended audience.
Law 4. Identify all major plan objectives, primarily 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.

Feedback law.
Law 8. Seek and respond to feedback.
(Note, obeying this law is intimately linked with simulation success rule 6).

(2) The Three Control Laws

Elaboration law.
Law 9. Elaborate the selected strategy as a set of sub-plans.
This (as discussed in chapter 2, above, passim) and law 10 are taken directly from Mintzberg's model of planning plans and planners.

Conversion laws.
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.
The One Simulation Law

This might equally be called the 'adaptive capacity' law.

Law 12. Be able to answer the audience's 'what if' questions in financial terms.

(Note, obeying this law is intimately linked with simulation success rule 6).

4.5.4 STATEMENT & DISCUSSION OF PARADIGM SUCCESS RULES

Two Fundamental Communications 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 plan reader.

Rule 2 is far easier to state than either to explain or to implement because the essence of it is good information presentation which, of course, encompasses good writing. If the plan document is well written and cogent in its descriptions and arguments, a reader will feel empowered - in the sense that knowledge is power. For example, several readers of the Wirrilla Business Plan (case study two, to be presented in chapter 6, below) commented that the use of a video (accompanying the business plan), the succinct but thorough description and the detail of quantitative exhibits really made them feel like they knew the asparagus business. This is empowerment - it involves deploying information that makes the potential investor feel competent - i.e. sufficiently potent - to make the decision.

Success Rule 3. Create investor confidence by providing flexible credibility.

Potency to make a decision is one thing. Confidence to make it is another. The entire thrust of the author's grounded experience in Entrepreneurial Business Planning - featuring as a constant theme throughout the thesis to this point - has been a chain of argument which can be summarised as follows. An investor's confidence to make an investment flows from the credibility established by the potential investee. This credibility flows, in turn, from flexibility: i.e. the ability to cater for alternative scenarios and encompass different contingencies. In practical essence it means being able to adapt the plan very quickly to the particular inquiries, emphases and assumptions of a particular investor. If prospective investor says, in effect - 'your base-case scenario is interesting but I would do things this way, what are the implications? - the business plan purveyor has to provide a detailed
answer very quickly. If he or she can do so, this flexibility - the capacity to generate and evaluate a particular scenario based on the prospective investor's requirements, concerns and assumptions - makes the plan, the entrepreneur and the venture they represent highly credible.

**Fundamental Control Success Rules.**

*Success Rule 4.* Anticipate and address the target audience's due diligence requirements.

*Success Rule 5.* Create a value-adding deal structure.

Success rule 5 is an injunction for effectively implementing law 5: 'define the investment offer as an expected ROI'. The question of how one does create a value-adding deal structure requires brief elaboration. Obviously, the specific answer is unique to every case but there is a set of general principles which can act as firm guidelines. They are presented in chapter 8 of the well-established text and case book by professor Howard Stevenson and his colleagues (Stevenson Roberts and Grousbeck 1994: 242-247). Essentially, different categories of potential investor stand to gain different levels of benefit from different aspects of a potential investment situation. Entitled simply, 'Deal Structure', the Stevenson et al. chapter provides a generic explanation of why this is so and how the fact can be exploited to add value. The case research about to be reported (chapters 5 and 6 following) provides, among other things, four specific illustrations of the importance of value-adding deal structure as a component of successful Entrepreneurial Business Planning.

**Fundamental Simulation Success Rule.**

*Success Rule 6.* Employ simulation techniques to obtain the most plausible 'base case' scenario which can withstand rigorous due diligence investigation.

This is the key success rule - involving creation of a sophisticated financial projection model of the business - upon which implementation of so many of the paradigm laws depend. Thus, it has been incumbent upon this researcher to step beyond the bounds of theory and create a detailed, practical regime for implementing the rule. The author's compendium of simulation techniques he has called 'the ECIPP method of dynamic due diligence', presented in detail in section 4.4.6 above. It provides a method for making this success rule operational.
4.5.5 STATEMENT AND DISCUSSION OF INSTRUMENTATION REQUIREMENTS

(1) The Fundamental Communications Instrument

This must be a unique, purpose-designed document - embodying high standards of literacy and numeracy - of the minimum length appropriate to the subject matter and the target audience's information needs.

(2) The Fundamental Co-ordinating, Control
(3) And Simulation Instrument

This must be a comprehensive financial projection model capable of enumerating the financial implications of alternative scenarios. The author's approach to building such a model (at the very heart of the ECIPP method of dynamic due diligence and the implementation of success rule 6) is presented in two appendices:

- Appendix A-3 A practical philosophy of entrepreneurial proforma financial statements.

And

- Appendix A-4 FIPRAL - an entrepreneurial financial modelling system (illustrated using data and projections from the Wirrilla case study).

Overleaf, a horizontal double-page spread facilitates comparison of the 'old' (the prevailing EBP discovered via the content analysis of chapter 3 and represented by a reproduction of exhibit 3-26) and the 'new' (the enhanced EBP paradigm developed in this chapter and represented in exhibit 4-3).
EXHIBIT 3-26
THE DISCOVERED ENTREPRENEURIAL BUSINESS PLANNING PARADIGM

<table>
<thead>
<tr>
<th>What are the paradigm elements?</th>
<th>How does one obtain success?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PARADIGM BOUNDARIES</strong></td>
<td></td>
</tr>
<tr>
<td>Receivers (audiences) are:</td>
<td></td>
</tr>
<tr>
<td>primary - VC Companies;</td>
<td></td>
</tr>
<tr>
<td>secondary - numerous, ill-defined.</td>
<td></td>
</tr>
<tr>
<td><strong>PARADIGM LAWS</strong></td>
<td><strong>PARADIGM SUCCESS RULES</strong></td>
</tr>
<tr>
<td>(Strongly prescribed).</td>
<td>(Weakly prescribed).</td>
</tr>
<tr>
<td>3. Keep it short.</td>
<td>3. Differentiate the business concept.</td>
</tr>
<tr>
<td>4. Plan must involve multi-disciplinary integration. *</td>
<td></td>
</tr>
<tr>
<td><strong>INSTRUMENTATION REQUIREMENTS</strong></td>
<td></td>
</tr>
<tr>
<td>No clear pattern of recommendations.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COMMUNICATIONS</th>
<th>CONTROL</th>
<th>SIMULATION</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>None prescribed.</td>
<td>None prescribed.</td>
<td>None prescribed.</td>
<td></td>
</tr>
</tbody>
</table>

| THEORETICAL JUSTIFICATION. None provided. |

* The prescription has both a communications and a control role.
### EXHIBIT 4-3
THE ENHANCED ENTREPRENEURIAL BUSINESS PLANNING PARADIGM

<table>
<thead>
<tr>
<th>COMMUNICATIONS</th>
<th>PARADIGM BOUNDARIES</th>
<th>PARADIGM LAWS</th>
<th>PARADIGM SUCCESS RULES</th>
<th>INSTRUMENTATION REQUIREMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receivers in general (total audience).</strong>&lt;br&gt;Investors - defined as potential providers of the funds or resources not currently controlled but needed to achieve identified plan objectives.</td>
<td>Encoding laws.&lt;br&gt;1. Codify the selected strategy as a multi-disciplinary continuum.&lt;br&gt;2. Integrate the codified strategy as a &quot;base case&quot; scenario.&lt;br&gt; (Note, obeying this law is intimately linked with the simulation success rule).</td>
<td>Fundamental Communications Success Rules.&lt;br&gt;1. Adapt plan length and depth of detail to the interest level and stage of involvement of the target audience.&lt;br&gt;2. Empower the plan reader.&lt;br&gt;3. Create investor confidence by providing flexible credibility.</td>
<td>Fundamental Communications Instrument.&lt;br&gt;A unique, purpose-designed document - embodying high standards of literacy and numeracy - of the minimum length appropriate to the subject matter and the target audience's information needs.</td>
<td></td>
</tr>
<tr>
<td>Receivers in particular (sub-audiences).&lt;br&gt;A tailored version of the plan should be targeted to each sub-audience distinct enough to warrant a separate investment offer.</td>
<td>Message content laws.&lt;br&gt;3. Nominate the intended audience.&lt;br&gt;4. Identify all major plan objectives, primarily as financial targets.&lt;br&gt;5. Define the investment offer(s) as an expected ROI.&lt;br&gt;6. Distinguish the venture's business concept, distinctive competencies and sustainable competitive advantages.&lt;br&gt;7. Provide comprehensive statements of opportunities and risks.</td>
<td>Feedback laws.&lt;br&gt;8. Seek and respond to feedback.&lt;br&gt;(Note, obeying this law is intimately linked with the simulation success rule).</td>
<td><strong>Definition of the sender (business plan writer).</strong>&lt;br&gt;(1) An entrepreneurial individual or team seeking resources required to overcome the factors impeding growth.&lt;br&gt;(2) Sophisticated; i.e. having both depth and breadth of generic business skills as well as all required venture-specific skills.</td>
<td></td>
</tr>
<tr>
<td><strong>The fundamental defining circumstances.</strong>&lt;br&gt;Impeded growth.</td>
<td>Elaboration law.&lt;br&gt;9. Elaborate the selected strategy as a set of sub-plans.</td>
<td>Fundamental Control Success Rules.&lt;br&gt;4. Anticipate and address the target audience's due diligence requirements.&lt;br&gt;5. Create a value-adding deal structure.</td>
<td><strong>Entrepreneurship process boundaries.</strong>&lt;br&gt;The nine entrepreneurial process parameters (identified by Bygrave and Hofer) must apply.&lt;br&gt;Defined limits of planning as a process.&lt;br&gt;Planning is strategic programming - not strategy formulation - (Mintzberg's definition).</td>
<td><strong>Conversion laws.&lt;br&gt;10. Convert the selected strategy into a differentiated suite of financial budgets.</strong>&lt;br&gt;11. Re-combine the differentiated budgets into an integrated suite of financial projections.</td>
</tr>
<tr>
<td><strong>Simulation possibilities are unbounded.</strong></td>
<td>Adaptive capacity law.&lt;br&gt;12. Be able to answer the audience's &quot;what if&quot; questions in financial terms.&lt;br&gt;(Note, obeying this law is intimately linked with the simulation success rule).</td>
<td>Fundamental Simulation Success Rule.&lt;br&gt;6. Employ simulation techniques to obtain the most plausible 'base case' scenario which can withstand rigorous due diligence investigation.</td>
<td><strong>Fundamental co-ordinating and control instrument.</strong>&lt;br&gt;A comprehensive financial projection model capable of enumerating the financial implications of alternative scenarios.</td>
<td><strong>Fundamental Simulation Instrument.</strong>&lt;br&gt;The same financial projection model.</td>
</tr>
</tbody>
</table>

**WHY IS IT SO?** Theoretical justification is based on: Mintzberg's planning model; Lasswell's communications model; discovery and logical critique of a prevailing paradigm and grounded theory.
NOTE

The pagination of this thesis has been organised so that the pages can be printed double-sided.

As a result, there were blank pages at the end of some chapters, so that the first page of a new chapter always appeared on the page that faced up.

These blank pages are missing from this version of the thesis.

The pages involved are: vi, 32, 128, 302, 326, 224 and 344.
CHAPTER ABSTRACT

The case research presented in this and the following chapter of the dissertation is designed in conformity with the methodology articulated in Robert Yin's *Case Study Research Design and Methods* (Yin 1989). The chapter begins with a summary of Yin's generic methodological prescriptions under seven headings: (1) definition; (2) emphasis on the holistic nature of case research; (3) treatment of the three major prejudices against case research; (4) importance of a rich theoretical framework as a starting point; (5) utilising four criteria for judging the quality of a research design; (6) postulating four basic types of case design; and (7) generalising to theory using replication - not sampling - logic. For achieving these prescriptions, Yin articulates a detailed set of procedural guidelines, which are summarised.

The chapter then proceeds to detail how the chosen research design meets Yin's methodological prescriptions and procedural requirements. Two objectives and five components of the research are specified and, following a brief examination of the peculiarities of business plans as research cases, the case research design is presented. It is what Yin calls a 'type-4' research strategy - i.e. one involving multiple cases and multiple units of analysis. Four cases were chosen to test the enhanced EBP paradigm. Selection was done with great care to maximise the ability to generalise to the theoretical proposition (the efficacy of the enhanced EBP paradigm) with the minimum risk of misinference of causality. A case attribute matrix (exhibit 5-3) presents 16 key attributes, many of which, if not articulated and diversified, might have impaired the ability to apply replication logic in the analytical stage. The selected cases cover a broad diversity of all key attributes coupled with precise definition of the case-specific factors acting as impediments to growth.

The chapter concludes by describing how the chosen research design deals with: case protocol; sources of evidence; case reporting; archiving of the case data base; and meeting the four quality criteria of construct validity, internal validity, external validity and reliability.
5.1 GENERIC METHODOLOGY: YIN'S PRESCRIPTIONS FOR CASE STUDIES AS A RESEARCH STRATEGY

5.1.1 DEFINITION AND CORE GENERAL PRINCIPALS

The case research presented in this and the following chapter of the dissertation is designed in conformity with the methodology articulated in Robert Yin’s *Case Study Research Design and Methods* (Yin 1989), a work regarded as the essential methodological canon for employing case studies as a research strategy. This researcher has identified eight core general principles - as distinct from detailed procedural recommendations - of Yin's argument. Each will be briefly summarised below.

(1) **Definition.**

Yin defines a case study (used for research purposes) as follows.

'A case study is an empirical inquiry that:

- investigates a contemporary phenomenon within its real-life context; when
- the boundaries between phenomenon and context are not clearly evident; and in which
- multiple sources of evidence are used.'  (Yin 1989: 23)

(2) **Emphasis on the holistic\(^1\) nature of case research.**

Yin stresses (14) that a major benefit of case research is its ability to retain the holistic and meaningful characteristics of real-life events. This emphasis is especially important in entrepreneurship given that one of the key ingredients of the entrepreneurial paradigm is recognition that it is a holistic process (see the reference to Bygrave and Hofer’s work in section 1.2.2, above).

(3) **Treatment of the three major prejudices against case research.**

Yin (21) confronts the three major traditional research prejudices against case studies:

\(^1\) A slight problem with Yin's treatment of the word 'holistic' is about to occur. He uses the word in two contexts, conveying two connotations. See below, point (6), 'Postulating four basic types of case research design'.
• alleged lack of rigour;
• that they provide very little basis for scientific generalisation;
• that they take too long and result in massive, unreadable documents.

The first and third prejudices are overcome by the very act of creating his book: a systematic, rigorous regime comporting with all of the cannons of accepted social science practice. The second prejudice is one not aimed at case studies alone but is the general critique levelled at all qualitative research by anyone who believes that only quantitative research can yield valid generalisations. While accepting that the answer to the question 'how do you generalise from a single case?' is not a simple one, Yin (21) states:

'The short answer is that case studies, like experiments, are generalisable to theoretical propositions and not to populations or universes. In this sense, the case study, like the experiment, does not represent a "sample," and the investigator's goal is to expand and generalise theories (analytic generalisation) and not to enumerate frequencies (statistical generalisation).'

This is precisely the task confronting a researcher who - having postulated an enhanced EBP paradigm - seeks next to test its efficacy and expand its relevance. It is a task of the species illuminated by Stevenson and Harmeling (1990), who distinguish between theories which seek to explain equilibrium and those which seek to illuminate change processes.

(4) Importance of a rich theoretical framework as a starting point.

Yin stresses the importance of a strong theoretical framework to effective case research design. He says (54):

'An important step in all of these replication procedures2 is the development of a rich, theoretical framework.... The theoretical framework later becomes the vehicle for generalising to new cases, again similar to the role played in cross-experiment designs. Furthermore, just as with experimental science, if some of the empirical cases do not work as predicted, modifications must be made to the theory.'

---

2 Replication logic is the seventh core principle of the Yin approach and will be summarised below.
Atypically, in the case research about to be presented, the enhanced EBP paradigm plays a double role. It is simultaneously passive (the subject to be 'operated upon' as it were) and (in its capacity as the required theoretical framework) an active participant in the research operation.

(5) Utilising four criteria for judging the quality of a research design.

Yin (40-41 and passim) specifies four familiar criteria for judging the quality of research designs: construct validity; internal validity; external validity and reliability. Section 5.3.3, below will demonstrate how the selected research design comports with each of these methodological criteria.

(6) Postulating four basic types of case design.

As previously mentioned in the first footnote of this chapter, Yin uses the word 'holistic' in two contexts, conveying two connotations. In the larger context - comparing the appropriateness of case research as against alternative research methodologies - Yin uses 'holistic' as most people would: an adjective connoting the richness implied in investigating the multi-faceted nature of a phenomenon.

'In brief, the case study allows an investigation to retain the holistic and meaningful characteristics of real-life events - such as individual life cycles, organisational and managerial processes, neighbourhood change, international relations, and the maturation of industries.'

(Yin 1989: 14)

However, when he postulates the four basic types of case research design, he uses the word 'holistic' almost as if it meant 'broad-brush' or 'at the broadest level of generality'. In this limited, technical context he is using 'holistic' as an antonym for the word 'embedded'. Perhaps the complication might have been avoided by choosing a different antonym in the second context, but exhibit 5-1, below, makes the specialised meaning quite clear.

A 'holistic' case design has a single unit of analysis (for instance, treating a complex organisation as an undifferentiated totality) whereas 'embedded' case designs have plural units of analysis (for instance, according separate, detailed treatment to several sub-units of an organisation such as its individuals, informal groups and formal functional divisions).
Yin argues that four general types of case design are possible, represented by this 2x2 matrix. As discussed, units of analysis can be either single ('holistic' case design) or multiple ('embedded' case design) and these attributes can be executed either in a single or multiple case strategy.

Section 5.3.1, below, will show that the case research design selected by this researcher is categorisable as 'type-4': an embedded, multiple-case design.

(7) Generalising to theory using replication, not sampling logic.

Throughout his methodological treatise, Yin keeps amplifying and re-amplifying the critical need to distinguish the replication logic of a multiple-case study design from the sampling logic so familiar in survey research analysed using statistical methods. It is replication logic that permits generalisation.

We have already met the generalisation problem and Yin's short answer to it - distinguishing generalisation to theoretical propositions from generalisations to populations or universes - under point (3) above. At this stage, an amplification of what he means by 'generalising to a theoretical proposition' is in order because the ability to generalise is a quintessential ingredient of any research method.
Yin's argument for the ability to make valid generalisations from case results is closely intertwined with his arguments on replication logic.

'A fatal flaw in doing case studies is to conceive of statistical generalisation as the method of generalising the results of the case. This is because cases are not "sampling units" and should not be chosen for this reason. Rather, individual cases are to be selected as the laboratory investigator selects the topic of a new experiment. Multiple cases, in this sense, should be considered like multiple experiments (or multiple surveys). Under these circumstances, the method of generalisation is "analytic generalisation," in which a previously developed theory is used as a template with which to compare the empirical results of the case study. If two or more cases are shown to support the same theory, replication may be claimed. The empirical results may be considered yet more potent if two or more cases support the same theory but do not support an equally plausible, rival theory.' (Yin 1989: 38)

And so the case research method, beginning in a rich theoretical framework, returns to it to draw valid generalisations.

'The use of theory, in doing case studies, is not only an immense aid in defining the appropriate research design and data collection, but also becomes the main vehicle for generalising the results of the case study.' (Yin 1989: 40)

With respect to this author's research, of course, the case design will result in generalising to a paradigm: a concept which - as has been expanded at length in previous sections of the dissertation - embraces both theory and practice.

5.1.2 **KEY PROCEDURAL FEATURES OF THE YIN REGIME**

Postulating the core tenets of a methodology is only half - or often less than half - of the task confronting a methodologist. Laying down procedures for implementing them is the next duty. Yin (1989: 25) says:

'The case study, like other research strategies, is a way of investigating an empirical topic by following a set of pre-specified procedures. These procedures will largely dominate the remainder of this book.'
This author believes that his readers can be spared an extended precis of all Yin’s methodological procedures. Due and appropriate reference to relevant procedures will be made simultaneous with the description of the selected research design as it unfolds in subsequent sections of this chapter. At this stage, only a very broad overview of the key procedural features of the Yin regime is presented, with reference to the flowchart he uses as an overview device. Exhibit 5-2, overleaf, is a reproduction of Yin’s figure 2.4 (Yin 1989: 56).

Most importantly, the process begins with theory development. For this author’s research, theory development and, beyond it, paradigm development has been the subject matter of the previous four chapters. This is followed by case selection (which will be discussed in section 5.2.2, below) and the design of a data collection protocol (which will be discussed in section 5.3.4, below). The next steps (in a multiple case design) are to conduct each individual case study and to write each individual case report. The final step involves performing cross-case analysis.

Sections 5.2, 5.3 and 5.4, following, provide the detail of the specific procedures followed by this researcher in setting his objectives, selecting his cases, developing his design, collecting and analysing his data and presenting his results. Chapter 6 will present each individual case study. Section 7.1 will present the cross case analysis.

5.2 CASE OBJECTIVES AND COMPONENTS

5.2.1 TWO CASE RESEARCH OBJECTIVES

The case research phase of this inquiry focused on two central objectives:

(1) to test the enhanced EBP paradigm by actually writing and deploying three funds-seeking entrepreneurial business plans and one investment evaluation according to its prescriptions;

(2) to ascertain whether the cases/plans thus produced, deployed and analysed could support the making of valid claims about the general theoretical and practical efficacy of the enhanced EBP paradigm as a management technology.
EXHIBIT 5-2
FLOWCHART OF CASE RESEARCH PROCEDURE
(Yin 1989: 56)

DESIGN

- Develop Theory
  - relate study to previous theory
  - aim for explanation

- Select Cases

- Design Data Collection Protocol
  - define "process" operationally
  - define "process outcomes" (not just ultimate effects)
  - use formal data collection techniques.

SINGLE-CASE DATA COLLECTION AND ANALYSIS

- Conduct 1st Case Study
  - interviews
  - observations
  - documents

- Conduct 2nd Case Study
  - interviews
  - observations
  - documents

- Conduct Remaining Case Studies
  - etc.

- Write Individual Case Report
  - pattern-match
  - policy implications

CROSS-CASE ANALYSIS

- Write Individual Case Report
  - pattern-match
  - policy implications
  - replication

- Draw Cross-Case Conclusions
- Modify Theory
- Develop Policy Implications
- Write Cross-Case Report

- etc.
5.2.2 FIVE CASE RESEARCH COMPONENTS

These central objectives were addressed by developing the core components of a comprehensive research design. Yin (29) cites five components of research design as especially important:

(1) a study's questions;
(2) its propositions, if any;
(3) its unit(s) of analysis;
(4) the logic linking the data to the propositions; and
(5) the criteria for interpreting the findings.

These components have been addressed by this case researcher as follows.

(1) Two sets of case questions

Given the inevitable intricacy, extensive work-load and data-richness of an embedded multiple-case design there is always a danger that a complex process might overwhelm a simple objective. Thus, it was felt especially important to fabricate the case research questions so that forthright yes/no answers to them could be obtained. Of course, it was realised that answering a simple 'yes' or 'no' would only be the start - not the endpoint - of analysis. Data-richness would ensure that detailed elaboration was possible. Nevertheless, it was felt vital that, at the basis of claims to be made for the enhanced EBP paradigm (if testing were to indicate that any could be made), the elaborate case research process should prove capable of producing very plain answers to very basic questions.

One slight complication results from the fact that three of the chosen cases (see section 5.3, below) were executed from the investee point of view (they were business plans, two seeking equity and one seeking debt funds) whereas one case was executed from the investor point of view (an acquisition evaluation, seeking to enhance the investment decision-making process). This meant that - though a single core question could be used - the formal statement of the case research sub-questions had to be slightly different for each perspective.

The core question (stemming from the fundamental objectives of the case research) was: 'Does the enhanced paradigm of Entrepreneurial Business Planning work?' The first level of answering this question
was designed to be an objective assessment of whether the specific impeded growth situation of each case was un-impeded through application of the EBP paradigm. This could be assessed by answering four specific sub-questions.

(1-1) The investee-perspective case sub-questions

Sub-question (a). The process of removing impediments to growth was deemed (in accordance with all the arguments of chapters one to four above) to begin with the answer to the key investment question: 'Did this business plan, produced by application of the enhanced EBP paradigm, induce an investor to supply the level of funds sought by the plan or a level of funds sufficient for achieving the plan's objectives?'

Sub-question (b). Proceeding beyond the starting point of funds provision to other measures for assessing whether growth impediments were successfully overcome, a second question in each investee-perspective case then became: (b) 'Did execution of the plan's prescriptions result in achievement of the plan's objectives?' This question implies that a degree of longitudinality should apply to each case: that sufficient time should be allowed between case execution and case analysis to judge some key aspects of growth performance beyond the mere provision of funds on settlement day.

(1-2) The investor-perspective case sub-questions

The core question remains the same but the two specific sub-questions change somewhat.

Sub-question (a). 'Did the investment analysis (an acquisition evaluation), produced by application of the enhanced EBP paradigm, provide the potential investor with a systematic method for investment decision making by indicating a "most likely" return on investment scenario?'

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3 The caveat at the tail of the question is obviously required for the simple reason that a prudent negotiator usually begins by asking for more funds or a higher price for equity than he or she expects to receive from a prudent investor.
Sub-question (b). If so, did that method indicate the due diligence factors influencing the risks and probabilities of achieving this "most likely" ROI scenario?

Armed with answers to these four sub-questions, the analyst would be in a position to return to the core question, transcend the specifics of individual cases and synthesise a general case answer to it.

(2) The study's propositions

The first and obvious proposition infusing the case research was:

'That application of the enhanced paradigm of Entrepreneurial Business Planning is a good managerial technique for assisting a venture first to achieve its specified funding requirements and then to meet its specified growth objectives.'

The second proposition infusing the case research was:

'That application of the enhanced paradigm of Entrepreneurial Business Planning is a tool providing equal benefits to entrepreneurs in search of funds and investors in need of evaluating the ventures in which they might invest.'

(3) The study's units of analysis.

The macro unit of analysis for each of three investee-perspective cases was an individual firm characterised by impeded growth and needing to attract investment funds as a matter of urgency. The macro unit of analysis for the investor-perspective case was an individual firm, being offered for sale, and which, prima facie, seemed a likely acquisition candidate to a prospective acquirer. As will be seen (refer to section 5.3 below and the full text of the four cases, bound as "Volume II Case Research Data Base"), the research involved an 'embedded' design. This meant that many sub-sets of each entity (e.g. their production, marketing, strategic planning and organisational sub-divisions) formed units of analysis in their own right, as and when appropriate to the planning and evaluation processes.
(4) The logic linking the data to the proposition and
and

(5) The criteria for interpreting the findings

The key to both is inherent in the case method. It is replication logic -
generalising to theory - as discussed in section 5.1.1, point 7, above and
section 5.3.4 below.

5.2.3 PECULIARITIES OF BUSINESS PLANS AS RESEARCH CASES

Most research case studies are of contemporary phenomena but they report
the recent, definite past: drawing their arguments from what has definitely
happened. All Entrepreneurial Business Plans are studies of contemporary
phenomena but they project the possible/probable near future: advocating
what might possibly happen. This difference of tense aside, research case
studies as articulated by Yin and Entrepreneurial Business Plans as
articulated by the enhanced EBP paradigm, have a great deal in common.

Both rely on multiple-sources of both qualitative and quantitative evidence
embodied in a data-rich environment to mount a sophisticated argument.
Indeed, almost any substantial, well-executed Entrepreneurial Business
Plan could serve as an exemplar of Yin's (1989: 46-49) prescriptions for an
embedded, single-case ("type-2") research design. There is the primary
(global/dominant) unit of analysis - the firm as an entity - but also multiple
sub-units of analysis requiring painstaking examination and exposition (the
entrepreneur, the management team, the product range, the functional
divisions). All analytical units require well-evidenced, dispassionate
presentation in a logically argued report generalisable to a theoretical
proposition (that the future scenario posited in the plan is both desirable
and feasible). It is entirely uncontroversial to say that every high-calibre
business plan is a case study of one or several business opportunities
generalised to a proposition for how best to realise those opportunities. All
of Yin's prescriptions for a well-written case (Yin 1989: chapter 6, passim)
apply precisely to the execution of a well-written business plan.

Also, an Entrepreneurial Business Plan, obeys Yin's rules for case protocol
(Yin 1989: chapter 3, passim) and deployment of evidence (Yin 1989: chapter
4, passim) to support propositions. The protocol is obvious from the table
of contents of any given plan and the need for evidentiary support is critical
when the audience is a highly sceptical pool of investors who will be very vigilant before releasing any of their closely-guarded investment funds.

Thus, the three key elements required to convert a well-written, well-researched Entrepreneurial Business Plan into a case study are primarily time, summarisation and the reporting of outcomes. To provide the closure needed for case generalisation, the business plan (or strategic evaluation) has to be allowed to have been 'in the field' for sufficient time to permit assessment and 'write-up' of whether:
(1) it attracted an investment and
(2) it met all or any of the key growth and performance milestones which it projected.

5.3 CASE RESEARCH DESIGN

5.3.1 A 'TYPE-4' RESEARCH STRATEGY

The chosen strategy was a 'type-4' (see, above, section 5.1.1, exhibit 5-1) design involving multiple cases and multiple units of analysis. Eisenhardt, in her treatise, entitled Building Theories from Case Study Research, argues (Eisenhardt 1989: 545) that:

'... while there is no ideal number of cases, a number between 4 and 10 cases usually works well. With fewer than 4 cases, it is often difficult to generate theory with much complexity, and its empirical grounding is likely to be unconvincing, unless the case has several mini-cases within it, as did the Mintzberg and McHugh study of the National Film Board of Canada. With more than 10 cases, it quickly becomes difficult to cope with the complexity and volume of the data.'

Four cases were chosen to test the enhanced EBP paradigm. They were:

- **CASE 1:** B.E.S. CUPS PTY LTD BUSINESS PLAN
- **CASE 2:** THE WIRRILLA PTY LTD BUSINESS PLANS
- **CASE 3:** THE RENTAL AND FINANCE (R&F) LIMITED SERIES OF BUSINESS PLANS
- **CASE 4:** THE CHILDCO ACQUISITION EVALUATION
The first three cases involved use of the enhanced EBP paradigm to write a business plan from the perspective of an enterprise suffering from impeded growth and seeking funds from an investor (two seeking equity, one seeking debt). Case four involved use of the enhanced EBP paradigm from the point of view of a potential investor company seeking an investment evaluation of a potential investee venture. It is undeniable that this research's case selection process - as they all do - involved many opportunistic elements despite thorough efforts to maximise internal validity and minimise bias. Detailed case prescripts of each case - including the defining circumstances - are provided in chapter 6, following, but one general feature of all the cases requires some immediate elaboration: none of the chosen 'case companies' was a new venture.

There are several research-driven imperatives which produced this decision. It was felt essential to the analysis - particularly the ability to use replication logic and the attribution of causality - to start from clearly defined growth impediments which had already been subjected to many attempted managerial remedies. For a new venture, there are so many undefined variables in play that attribution of causality is very problematic. For instance, one might feel that the quality and execution of the Entrepreneurial Business Plan is the primary reason for post facto success in attracting an investment, but there is really no answer to the critic who says something like "the opportunity (or 'product' or 'market situation' or whatever) was so good that the investment would have been secured and successful growth achieved irrespective of the type or quality of the business plan". In contrast, all chosen companies were in circumstances whereby a strong (though never conclusive) argument could be mounted that the achievement of the investment and the initial stages of re-invigorated growth (for the three investee companies) and the ability to make an informed investment decision (in the case of the investor company) were directly attributable to the enhanced EBP paradigm treatment they received. This attribution was overtly stated by all protagonists in all cases and is clearly evidenced and demonstrated in the case studies (see chapter 6, following). For instance, just prior to commissioning this researcher to embark on the Entrepreneurial Business Planning project for Wirrilla Pty Ltd (see CASE 2, section 6.2, below), the investment manager and board of Elders Rural Finance were fully satisfied that they had tried every traditionally-available managerial technique (their documented words) to secure a sale of the equity of Wirrilla Pty Ltd. They documented their
willingness to accept two things of great importance to an ability to attribute causality to the EBP method of problem treatment:

(1) a 'market proven' price of 2.5 million dollars for the business as the best that they expected to achieve and

(2) their conviction that any premium achieved in excess of 2.5 million dollars would be directly attributable to this researcher's application of his enhanced EBP paradigm.

That level of documented attribubtability (and hence the attendant capacity to argue to general theory using replication logic) would have been simply unavailable if the case chosen for research purposes had been a startup. Finally, since the fundamental defining circumstance underpinning the enhanced EBP paradigm is impeded growth (see chapter 4, passim, above and especially sections 4.1.1 and 4.5), it was important to the research design and the possibility of generalising from it to represent a variety of well-defined impeded growth circumstances. These are summarised in the case attribute matrix, presented and discussed in the next section.

5.3.2 CASE ATTRIBUTE MATRIX

The choice of four as the number of cases was a deliberate trade-off between the need for a well-diversified basis for generalisation claims and the twin problems execution time and data volume. Beyond their strong differences in growth impediment circumstances, the cases were carefully selected to provide variety across a range of attributes which might - if not overtly addressed - have weakened the ability to attribute causality to the enhanced EBP regime. This is all a part of Yin's case-regime insistence on strengthening validity by overt consideration of alternative explanations. For instance, the general business skill levels of the four entrepreneurs involved range from a rating of low to high, making it difficult to attribute attraction of an investment exclusively to the entrepreneur's latent capacity. Similarly, any claim that results may be industry-specific is combated by ensuring that the cases come from different levels of industry (primary, secondary and tertiary are represented) and sectors of the economy (agriculture, manufacturing, retail and service/finance). One case seeks debt funds exclusively: two seek equity. As previously discussed, both the investor and investee perspectives are considered. And so on.

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4 As will shortly become apparent, in a strictly literal sense, the number of cases is actually eight (counting two editions of the Wirrilla Business Plan and four editions of the R&F Business Plan).
<table>
<thead>
<tr>
<th>Alt. #</th>
<th>MAJOR CASE ATTRIBUTES</th>
<th>CASE 1</th>
<th>CASE 2</th>
<th>CASE 3</th>
<th>CASE 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>BES CUPS</td>
<td>WIRRILLA</td>
<td>R&amp;F</td>
<td>ChildCo</td>
</tr>
<tr>
<td>1</td>
<td>General Industry Level</td>
<td>Secondary</td>
<td>Primary</td>
<td>Tertiary</td>
<td>Mixed</td>
</tr>
<tr>
<td>2</td>
<td>Macro Industry Classification</td>
<td>Manufacturing</td>
<td>Agriculture</td>
<td>Finance</td>
<td>Retail</td>
</tr>
<tr>
<td>3</td>
<td>Specific Business Type</td>
<td>Manufacturer of fast food containers</td>
<td>Asparagus farm with processing facilities</td>
<td>Provider of retail rental and leasing funds</td>
<td>Manufacturer's agent &amp; industrial distributor</td>
</tr>
<tr>
<td>4</td>
<td>Primary Objective Of Business Plan</td>
<td>Secure equity investor (sale of business)</td>
<td>Secure equity investor (sale of business)</td>
<td>Secure debt funding at wholesale rates</td>
<td>Evaluate acquisition candidate</td>
</tr>
<tr>
<td>5</td>
<td>Fundamental Dependent Variable</td>
<td>Value added</td>
<td>Value added</td>
<td>Value added</td>
<td>Perception of value added probability</td>
</tr>
<tr>
<td>6</td>
<td>Key Impeded Growth Factor To Be Overcome</td>
<td>Chronic insolvency</td>
<td>Chronic insolvency</td>
<td>High cost of debt</td>
<td>Market saturation</td>
</tr>
<tr>
<td>7</td>
<td>Major Market Risk</td>
<td>Imminent liquidation</td>
<td>Imminent liquidation</td>
<td>Severe growth regression</td>
<td>Stagnation</td>
</tr>
<tr>
<td>8</td>
<td>Rating Of The General Business Skill Level Of The Entrepreneur</td>
<td>Medium</td>
<td>Low</td>
<td>Very High</td>
<td>High</td>
</tr>
<tr>
<td>9</td>
<td>Entrepreneur's Initial Attitude To The EBP Exercise</td>
<td>Hopeful</td>
<td>Hostile and contemptuous</td>
<td>Wary</td>
<td>Sceptical</td>
</tr>
<tr>
<td>10</td>
<td>Audience Focus Of Plan</td>
<td>* Large manufacturers * competitors</td>
<td>Global traders knowledgeable in high value-added primary produce</td>
<td>Professional commercial funds suppliers and managers</td>
<td>The M&amp;A division of the parent company - a multi-national corporation</td>
</tr>
<tr>
<td>11</td>
<td>Key Investment Benefit Emphasised In The Plan (or Evaluation)</td>
<td>Competitive necessity</td>
<td>Market share in premium priced export niche</td>
<td>Ability to earn wholesale premiums</td>
<td>Due diligence issue identification and assessment</td>
</tr>
<tr>
<td>12</td>
<td>Key Investment Impediment</td>
<td>Current insolvency</td>
<td>(1) Rural crisis preconceptions (2) Current insolvency</td>
<td>(1) Funds supplier ignorance of the business (2) Cyllical downturn</td>
<td>Cost &amp; relevance of traditional due diligence investigations</td>
</tr>
<tr>
<td>13</td>
<td>Specific Economic Objective(s) Of The Plan (or Evaluation)</td>
<td>Sell the business for more than $700,000</td>
<td>Sell the business for more than $2.5 M.</td>
<td>(1) Lower cost of funds (2) Achieve funds under management targets</td>
<td>Evaluate an acquisition target under a range of alternative scenarios</td>
</tr>
<tr>
<td>14</td>
<td>Number Of Iterations</td>
<td>One</td>
<td>Three</td>
<td>Four</td>
<td>One</td>
</tr>
<tr>
<td>16</td>
<td>Document Length</td>
<td>75 pages</td>
<td>147 pages</td>
<td>134 pages</td>
<td>25 pages</td>
</tr>
</tbody>
</table>
Exhibit 5-3, is a matrix summarising and comparing the salient features of each case with respect to 16 key attributes. Scrutiny of this case attribute matrix supports the contention that the case mixture has been chosen to cover a wide range of business circumstances and situations with a view to maximising the eventual ability to make valid generalisations to theory.

5.3.3 PROTOCOL, SOURCES OF EVIDENCE AND DATA BASE

In general usage (Oxford dictionary), a protocol is the observance of ‘official formality and etiquette’. More particularly it is a statement of ‘official formulae at the beginning and end of a charter’. Yin (1989: 70-80) provides detailed guidance for the creation and execution of a case-study protocol. The protocol for this author’s case research are best treated at two levels:

- **general case protocol** - which are set by the prescriptions of the enhanced EBP paradigm and with which, therefore, the reader is thoroughly familiar;

- **specific case protocols** - which are the detailed individual regimes specific to the execution of each separate case.

For each of the four cases in this author’s case research the general case protocol was created by the detailed prescriptions of the enhanced EBP paradigm itself, as articulated, at length in chapter 4, above, and summarised by the four paradigm subdivisions:

- establishment of defined boundaries;
- obedience to and implementation of all communications, control and simulation laws and success rules;
- use of appropriate instrumentation and creation of a document encapsulating all of the above.

So much is simple and brief to state. However, when it comes to reporting treatment of the *specific* case protocols and, therefore, the reporting of evidence and recording of data bases which protocols require, very thorny problems are encountered. Case research is a difficult methodology under any circumstances. It presents special problems in the context of the PhD process - a process with firm boundaries and rules of its own, one of which is length. A dissertation has a word limit. This limit quickly presents more problems for the case researcher than for almost any other methodological exponent because case research is about conveying richness, depth and
density of experience. This simply cannot be done with bullet point exposition. Furthermore, for any case work to transcend the boundaries of inconclusive discourse and become case research - i.e. employ rigorous methodological prescriptions such as those specified by Yin - stringent case protocols act to increase rather than decrease length. In particular, as much as possible of the database used by the case researcher in reaching conclusions has to be available to subsequent researchers.

The database for a quantitative researcher may be succinctly encapsulated in such compact formats as numeric responses to survey questions and easily stored for another analyst to replicate, extend and explore by means of statistical analysis. In stark contrast, the field-notes, interview transcripts, original documents etc. which form part of the case researcher's (and, of course, the Entrepreneurial Business Plan writer's) arsenal of data may run to thousands of pages. Yet, for the sake of validation and credibility, as much as possible of this material must be archived for posterity.

How has this researcher resolved the conflicting needs for dissertation parsimony versus case research richness and database access?

Part of the answer is that, in respect of this conflict, he has been lucky in his choice of subject matter. As section, 5.2.3, above articulated, an Entrepreneurial Business Plan is by its very nature a case study which has to comport with many of Yin's (1989) most rigorous precepts. The reader of an Entrepreneurial Business Plan who is interested enough to potentially invest in the venture it purveys, is likely to submit the plan's claims to a vigorous process of due diligence. There can be severe legal penalties for the making of false claims in documents which solicit investment. for these and other reasons, a fully-articulated Entrepreneurial Business Plan contains, inter alia, its own database. It must not only argue an outcome, it must supply the evidence for it.

So, in this research, the specific case protocol of each case is articulated fully in each original document's table of contents (see Volume II, the text of the three business plans and one acquisition evaluation).

Each protocol was designed to comport fully with Yin's methodological requirements. Most importantly, the protocols, embracing details of sources of evidence, are archived so that future researchers can revisit the data and arguments upon which case conclusions were based. The archiving is by
way of a second volume which will accompany this dissertation into the library at Swinburne University of Technology. Accessible to bona fide scholars, Volume II contains the original business plans and acquisition evaluation texts, in full, together with all their appendices. Embodied within each case-source text are records of procedure covering the four requirements which Yin (1989: 10 and passim) specifies that a case protocol must contain, viz.:

- an overview;
- articulation of field procedures;
- statement of case study questions 5;
- a guide for the case study report.

5.3.4 CASE PRESENTATION AND ANALYTICAL PROCEDURE

Given that the full text of each business plan6 and the acquisition evaluation has been archived as described above, the final research design problem concerned specification of the mode for reporting and analysing the cases. In case study research, reporting and analysis are not separate decisions: they are intricately linked. Yin (1989: 106-109) postulates two general analytic strategies:

(1) Relying on theoretical propositions.

For the case research about to be presented, this requires no further elaboration as the enhanced EBP paradigm provides the theoretical propositions.

(2) Developing a descriptive framework for organising the case study.

The descriptive (and hence analytical) framework chosen was to report upon each case individually (chapter 6, below) under four main section headings and to follow this with a cross-case analysis (section 7.1, below).

For each individual case, the four chosen reporting headings were:

5 The generic case research questions (as distinct from the specific problem-solving questions germane to each plan in its setting) were presented in section 5.2.2, above.
6 The Wirrilla case spanned two editions of the Wirrilla business plan and the R&F case spanned four editions of the R&F business plan. For reasons of space, only the latest edition of each plan has been included in the case protocol archive of Volume II.
(1) A case prescript: setting out the defining circumstances of the case.

(2) A summary of the contents of the business plan
(or acquisition evaluation).

(3) Salient features of case execution.
(These were designed to be summarised under the three functional roles of a plan - communications, control and simulation).

(4) Case outcomes: results of paradigm application. (For each individual case, the main analytical approach could be specified, broadly, as an elaborated answer to the case questions specified in section 5.2.2).

General analytical techniques to be employed were inherent in the specified reporting design and comport with Yin's recognition (1989: chapter 6, passim) of three dominant modes of analysis:

- pattern matching;
- explanation building;
- time series analysis.

The key to pattern matching is described by Yin (1989: 111):

'In essence, your goal is to identify all reasonable threats to validity and to conduct repeated comparisons, showing how such threats cannot account for the dual patterns in [multiple] cases.'

The capacity to deal with threats to inferential validity was dealt with in this research design by the systematic selection of a diversity of key case attributes, described above, in section 5.3.2 and summarised in exhibit 5-3.

Yin (1989: 113-115) describes the key to explanation building as a series of iterative steps which first entertain then gradually reject a series of plausible or rival explanations. Yin's third major mode of case study analysis, is time series analysis - a subject extensively treated in the general research methodology literature and in volumes devoted specifically to it. Yin refers his readers to Kratochwill (1978).

The chosen reporting format for cross-case analysis was to present observations, patterns and inferences under five headings:
Section 7.1.1 Comparison Of Key Case Attributes;
Section 7.2.2 Comparison Of The Three-C Trinity;\(^7\)
Section 7.2.3 Comparison Of Marketing Situations And Treatments;
Section 7.2.4 Synthesis And Generalisation: Extent And Limits
Of Applicability Of The Enhanced EBP Paradigm

With the reporting and analytical design articulated, only one task remains before proceeding to the case reports. It is the requirement to articulate, briefly, the ways in which the chosen research design meets the four case research design quality criteria specified by Yin (1989: 40-45) and mandatory for all rigorous applications of qualitative methods.

5.3.5 MEETING THE FOUR CASE RESEARCH DESIGN QUALITY CRITERIA

As previously indicated (section 1.1 above), Yin (40-45 and passim) specifies four criteria for judging the quality of case research designs: construct validity; internal validity; external validity and reliability.

- Construct validity

Yin (1989: 41-42 and chapter 4, passim) cites three tactics for achieving construct validity - use of multiple sources of evidence; establishment of a chain of evidence and having key informants review the case study report. All three requirements are part of the very nature of the business planning process and are clearly demonstrated in all four documents which comprise the case data base (Volume II, as described).

Yin (1989: 41) rightly points out that construct validity:

'... is especially problematic in case study research. People who have been critical of case studies often point to the fact that a case study investigator fails to develop a sufficiently operational set of measures and that "subjective" judgements are used to collect the data.'

Fortunately, in this researcher's study, construct validity is far less problematic than it is for such topics as Yin's (1989: 42) cited example of "neighbourhood change". Indeed, for three of the cases in this study, where

\(^7\) The 'three Cs' are: business CONCEPT, distinctive COMPETENCY and sustainable COMPETITIVE advantage. These form the trinity of message content mandates specified in law 6 of the enhanced EBP paradigm (see section 4.5, above).
what is being tested is the utility of the enhanced EBP paradigm to generate a plan capable of attracting an investor, the fundamental construct (simultaneously the core operational measure) is totally objective and totally quantitative. This is a very unusual and welcome simplifying factor in the complex arena of case research. It is, of course, the recording of market data in the form of the amount of funds obtained by an investee from an investor.

For each of the first three business plans (case studies) in the study, this volume of funds obtained (or not obtained) provides the fundamental, direct measurement of the efficacy of the particular business plan (case study) created by the enhanced EBP paradigm. In the fourth case (an acquisition evaluation), where what is being tested is the viability of the enhanced EBP paradigm to aid investor decision making, the key construct is a measure of satisfaction in the form of a protagonist's (the 'acquisition evaluator's') statement of the degree to which he was satisfied that the application of the enhanced EBP paradigm did or did not provide him with an appropriate and thorough due diligence investigation technique.

• Internal validity

With respect to the important issue of internal validity, Yin (42) points his readers in the direction of the many textbooks and treatises that deal extensively with this issue. He elaborates only two points (43):

'First, internal validity is a concern only for causal or explanatory studies, where an investigator is trying to determine whether event x led to event y. If the investigator incorrectly concludes that there is a causal relationship between x and y without knowing that some third factor - z - may actually have caused y, the research design has failed to deal with some threat to internal validity.'

Yin's second point (1989: 43) is:

'Second, the concern over internal validity, for case study research, may be extended to the broader problem of making inferences. Basically, a case study involves an inference every time an event cannot be directly observed. Thus an investigator will "infer" that a particular event resulted from some earlier occurrence, based on interview and documentary evidence collected as part of the case study. Is the
inference correct? Have all rival explanations and possibilities been considered? Is the evidence convergent? Does it appear to be airtight? A research design that has anticipated these questions has begun to deal with the overall problem of making inferences and therefore the specific problem of internal validity.'

These concerns are important in this researcher's study whose logical flow broadly proceeds along the following lines: 'The enhanced EBP paradigm was the template for (and thus caused) this business plan whose arguments were convincing to an investor and thus caused this investment'. The author believes that readers of the cases following in chapter 6 will be satisfied with the substantial efforts made to minimise the possibility that any third factor might have interfered in the chain of causality. A re-perusal of the case attribute matrix (exhibit 5-3, section 5.3.2, above) will demonstrate that cases were assiduously chosen to minimise the possibility of mis-inferred causality. For instance, as indicated in section 5.3.1, above, in the Wirrilla case (to be reported as case three, in chapter six, below) the investment manager of Elder's Rural Finance documented his attribution of causality to the enhanced EBP paradigm.

• External Validity

This is the problem of knowing whether a study's findings are generalisable beyond the immediate case study and has been a major barrier in doing case studies for the reason that forms the most recurrent theme of Yin's book and has already been enumerated in this chapter (see above, section 5.1.1, point 8). It is as Yin (43) argues - using italics for emphasis - that the analogy to samples and universes is incorrect when dealing with case studies. It is because survey research relies on statistical generalisation, whereas case studies (as with experiments) rely on analytical generalisation.

'In analytical generalisation, the investigator is striving to generalise a particular set of results to some broader theory.'

The recommended technique for analytical generalisation and hence external validity, is the practice of replication logic, a matter already discussed (see section 5.1.1, point 7, above).
• Reliability

'The general way of approaching the reliability problem is to make as many steps as possible as operational as possible, and to conduct research as if someone were always looking over your shoulder. In accounting and bookkeeping, one is always aware that any calculations must be capable of being audited. In this sense, an auditor is also performing a reliability check and must be able to produce the same results if the same procedures are followed. A good guideline for doing case studies is therefore to conduct the research so that an auditor could repeat the procedures and arrive at the same results.' (Yin 1989: 45).

In writing his prescription for reliability insurance in case research, Yin used the process of auditing in an accounting sense as a general analogy. Interestingly, for this author's research, it is directly applicable as a specific possibility. Every case/plan is centred on a financial model - producing an integrated suite of proforma accounts - which is available (in disk form, as part of the 'Volume II' archive described in the previous section) for the auditing scrutiny of all subsequent researchers. They can literally audit the logic of each case by examining the assumptions and logic of the financial model which encapsulates its essence.

Thus, it can be argued that the selected research design meets the four quality criteria specified by Yin.

The following chapter proceeds to design implementation, reporting and analysing the four cases.
NOTE

The pagination of this thesis has been organised so that the pages can be printed double-sided.

As a result, there were blank pages at the end of some chapters, so that the first page of a new chapter always appeared on the page that faced up.

These blank pages are missing from this version of the thesis.

The pages involved are: vi, 32, 128, 302, 326, 224 and 344.
CASE RESEARCH
EXECUTION AND RESULTS
FOUR TESTS OF THE ENHANCED EBP PARADIGM

CHAPTER ABSTRACT

This chapter reports four case research tests of the efficacy of the enhanced Entrepreneurial Business Planning paradigm. All cases used the design and methods presented in the previous chapter. Each case employed the following reporting protocol: a prescript presenting the defining circumstances of the case; a summary of the contents of the Entrepreneurial Business Plan; a discussion and analysis of salient features of case execution; a report of the results of enhanced EBP paradigm application.

The first three research cases had an 'investee' focus. The central question which these cases had to address in terms demanding quantitative financial answers (and to which all three cases produced affirmative answers) was: 'Did this business plan, produced by application of the enhanced EBP paradigm, induce an investor to supply the level of funds sought by the plan or a level of funds sufficient for achieving the plan's objectives?

Case 1, B.E.S. Cups Pty Ltd was an innovative but insolvent manufacturer needing a substantial equity investment (or total sale) in order to survive and grow. The 1986/87 financial year had been a disaster - the company had sales of $1,349,000 - for after-tax losses of $389,000 - and a balance sheet showing negative net worth of $635,000. The resultant Entrepreneurial Business Plan successfully solicited genuine interest from over fifteen manufacturers. Five formal tenders were received and a winning bid, slightly in excess of $1,500,000, came from Confoil Proprietary Limited and was accepted in late 1988. The enhanced EBP paradigm treatment thus added value exceeding $2,135,000.

Case 2, Wirrilla Pty Ltd, was a classic example of one of Australia's 'rural debt-wrecks', which proliferated in the latter half of the 1980s. The company and its entrepreneur owed financier, Elder's Rural Finance Limited, over $10 million and could not service the debt. Elders' Board, as de facto owners, were willing to accept $2.3 million as a firesale price in September, 1991, when, instead, they commissioned the author to
undertake an enhanced EBP paradigm treatment of the company’s plight. The resultant Entrepreneurial Business Plan was used as the managerial basis for operations in the 1982 season, which contributed nearly $1.5 million to Elder’s coffers. Using the business plan, the original indebted entrepreneur then raised a further $4,750,000 and settled in February, 1983. Elders thus obtained and acknowledged a premium of nearly $4 million attributable directly to the application of enhanced EBP techniques.

Case 3, Rental And Finance Limited (R&F), was (and remains) a specialist financial company which in September, 1992, controlled over $24 million in funds under management in what was becoming one of the fastest growing and most specialised segments of the industry - Sales Aid Finance. However, the company was in deep crisis. Its supply of wholesale funds - never provided at cost-of-funds rates commensurate with its major competitors - was now in danger of drying up altogether. The key to rapid growth and the major aim of the Entrepreneurial Business Plan was to obtain an adequate volume of funds (no less than a facility of $35 million per annum for contract financing) at an average cost of funds no higher than 2.82% above the swap rate. At the time of release of the first R&F business plan (December 1992), R&F had $24 million in funds under management. By December 1995, after four editions of the business plan, the company had over $100 million in funds under management. As the volume of funds increased, so did their average cost come down, at an almost linear rate, from just over 3% above the swap rate at the time of the first plan’s release to just below 1.75% above swap three years later. R&F’s managing director, Richard Power, attributed the majority of this success directly to the use of the enhanced EBP paradigm embodied in the company’s four editions of its business plan.

Case 4, ChildCo, had an 'investor' rather than an 'investee' focus. Its CEO was seeking a means to investigate and decide on whether to invest in a potential acquisition but had only one month to complete his M&A evaluation; no expertise or previous experience in the field; a severely limited budget for the exercise and had been flatly informed by prevailing M&A experts that what he wanted could not be done. Employing the precepts of the enhanced EBP paradigm, ChildCo's CEO and the author performed a detailed acquisition evaluation on time, within budget and to the satisfaction of ChildCo's previously skeptical parent company: one of the world's largest multi-nationals whose divisions included one the world's largest and most experienced corporate M&A divisions.
6.1 CASE ONE: THE B.E.S. CUPS BUSINESS PLAN

6.1.1 CASE PRESCRIPT: DEFINING CIRCUMSTANCES

- Foundation And Development Of The Company

B.E.S. Cups was incorporated in August 1981 with a mission to become a significant and profitable manufacturer of expandable polystyrene cups. Known in the trade by its initials 'EPS' or by the title 'clean foam' (to distinguish it from the 'dirty' plastics which involved chloro-flurocarbons (CFCs) in their manufacture, expandable polystyrene was a minority medium in the convenience container industry where materials including paper, metal foil and different types of plastics dominated. But entrepreneur, Barry White, had faith in clean foam and his ability to manufacture it into competitive container products servicing the rapidly expanding fast-food industry. A small factory was rented at Keysborough and work commenced on the installation of the initial plant and ancillary components. The first cup was produced in late June, 1982 and the plant went into full production in September of that year.

By mid-1984 it was decided that, for B.E.S. to continue successfully, it would be necessary to replace all older machines with new equipment, and arrangements were made to have ten new machines built and installed over the next year. Between May 1985 and April 1986, the new machines were installed at the then current Dandenong premises. They proved to be much faster and more efficient than the old plant. These same machines were still running in 1988, with computer controlled additions, and formed the heart of a plant which was productive but unorthodox: heavily dependent upon the idiosyncratic engineering brilliance of the company's founding entrepreneur, Barry White. From commencement of trading in September 1982, the Company grew to achieve annual turnover of $1.9 million for a pre-tax (projected) profit of $430,000 in the year ended June 1988.

- 'Annus Horribilis' And The Brink Of Bankruptcy

Despite sound performance for the majority of its history and promising future potential, B.E.S. Cups was, in early 1988, facing a range of very severe problems - not least of which was its technical insolvency. The 1986/87 financial year had been a disaster - the company's 'annus horribilis'. In this
year, the company had sales of $1,349,000 for after-tax losses of $389,000 and a balance sheet showing negative net worth of $635,000. Borrowing capacity was exhausted and several creditors were intimating an inclination to force the company into receivership. There were no interested prospective equity providers; suppliers were demanding cash-with-order and B.E.S.'s two competitors were actively soliciting the company's remaining loyal customers.

Here was an innovative company in extremis, with its growth potential totally impeded by well-defined factors, desperately needing a substantial equity investment and objectively beyond the power or interest of traditional management techniques. The circumstances provided an ideal case environment for the author to test the efficacy of his emerging enhanced paradigm of Entrepreneurial Business Planning. The opportunity to do so came through B.E.S. Cups' financial advisor, Henty Corporation Limited.

- Intervention Of Henty Corporation Limited And The Author's Entrepreneurial Business Planning Methods

By early 1988, Henty Corporation Limited had become B.E.S.'s largest secured creditor (deferred liabilities to Henty totalled $224,639 on 31 March, 1988). Henty was a publicly listed financial intermediary whose portfolio included the provision of debt (primarily factoring) and equity to unlisted private companies. This author had a retained consultancy arrangement with Henty with responsibilities for evaluating the investment-worthiness or credit-worthiness of prospective client companies. At the same time, he was preparing two research proposals for his prospective Ph.D. candidacy, one of which became refined into the research being reported in this thesis. So, he was actively involved in the search for suitable test cases of the emerging enhanced EBP paradigm.

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1 See the quotations from Henty Corporation Limited's co-managing directors, below.
2 Naturally, at this early stage of his research project, the enhanced EBP paradigm was not as fully wrought as it appears in chapter 4 of this thesis. But its major tenets and procedures - flowing as they did from the grounded theory of the author's consulting experience in the field (see chapter 4, above and appenddix A-2) - were in place, in detail. It will be evident to a reader of the B.E.S. Cups Strategic Evaluation document (Volume II, Case One) who is also conversant with the principles of the enhanced EBP paradigm that the document represents an embodiment of those principles.
The non-performing loan to B.E.S. (which was on the books prior to this author accepting a consultancy with Henty) was causing grave concern to Henty's principal executive shareholders, Marcus Rose and David Lurie (as mentioned, B.E.S. had negative net worth of $635,000 on June 30, 1987). They were at the stage of seriously considering cessation of all further loan funds despite B.E.S.'s improved trading and prospects in early 1988.

At one meeting which the author attended, Marcus Rose, Henty's co-managing director, told Barry White, managing director of B.E.S. Cups:

'Mate, your business is a basket case - but all the eggs in it are ours'.

At another meeting, Henty's co-managing director, David Lurie, speaking to the author said:

'Kevin, we've exhausted all the traditional debt and equity routes to try and revive this company. Nobody is interested. We'll try your proposition as a last resort'.

The author's proposition was to seek a sale of (or substantial equity injection into) the business by creating and promulgating an Entrepreneurial Business Plan, created according to his emerging paradigm. Henty and B.E.S Cups signed an agreement containing an appropriate arrangement for sharing of rewards in the event of a sale. In January, 1988, the author was given authority and unfettered co-operation by both Henty Corporation and Barry White to implement some immediate changes and commence the production of the plan. White and Henty's directors were aware that the author was treating the project as participatory action research and he was given permission to publish his findings so long as they were not published for five years after the production of the business plan and did not breach any commercial sensitivities which might prevail at the time he sought to publish. With the time frame for his studies projected over a six-year horizon and cognisant of the need for the passing of a sufficient amount of time before dispassionate conclusions could be reached, the author agreed and commenced work.

The plan, entitled B.E.S. Cups Pty Ltd Strategic Evaluation, (reproduced as Case One in Volume II), was completed and the search for equity investors commenced on May 20, 1988.
6.1.2 SUMMARY OF BUSINESS PLAN CONTENTS

* The Document Featured The Following Major Points And Arguments.

* The company was currently a small manufacturer, situated in the Melbourne suburb of Dandenong and employing 20 people.

* The company was engaged in the disposable container industry supplying the niche sector of foam cups.

* The disposable container industry was currently going through significant changes with the foam cup sector poised to achieve greater market share. The company had, to date, not taken advantage of these emerging trends. Furthermore, the company was also poised to expand its product range and significantly enhance its overall position in that growing and expanding industry.

* The document invited offers after highlighting the industry and the company and demonstrating that the company afforded an excellent investment opportunity to a prospective purchaser.

* There Was A Twofold Opportunity Presented To Prospective Investors.

Option 1. For the investor preferring no further capital outlays, it was argued that acquisition of B.E.S. Cups Pty Ltd represented a safe and solid opportunity. The business had demonstrated its capacity for achieving high profit margins on a $2 million turnover in a market where demand outstripped supply. By strategically adjusting machine deployment to include a greater percentage of specialty cups and food containers (tubs), turnover and profitability, it was argued, could be more than doubled in twelve months with no further injection of capital.

Option 2. With the expenditure of $1,000,000 over a two-year period, it was argued that the company would be capable of rapid growth, developing from a 1988 turnover of $1.9 million and net profit before tax of over $430,000, to a projected turnover of $20 million by June 1991, and a net profit after tax of over $3 million. In addition,
Option 2 projections indicated a business with a highly productive capital base where plant valued at only $1 million could produce $20 million in turnover.

- **The Focus On Profit Potential**

In the crudest of accounting terms, the essence of this business plan was to convince potential acquirers of the good income statement potential of a company which, until very recently had had a very bad balance sheet. Of all the exhibits the document would produce, it was the proforma suite of income statements for the next three years which was the most important. The author recognised that the proforma cashflow and balance sheet statements presented in the EBP document would be of scant interest to potential acquirers. As a large manufacturer, each target investor would have its own financing and divisional policies which would immediately overrule the business plan's assumption that B.E.S. Cups would trade as an entity in its own right. All eyes would be on the credibility of the profit potential which the plan posited.

Exhibit 6.1-1 reproduces the proforma income statements for the forthcoming three financial years which was presented to potential investors in the second scenario of the B.E.S. Cups business plan.

- **Arguments Used To Produce And Support The Projections**

Three General Strategic Guidelines

Consideration of the company's current marketing and organisational situation presented three strategic guidelines, namely:

- expand capacity to meet a demonstrable level of demand;
- broaden the company's concept of 'the marketplace';
- enhance the product range.

*Expand Capacity to Meet Demand*

The company was in the enviable position where demand for its current products (and products it could manufacture in future) considerably outstripped its ability to supply. Consequently, the first
EXHIBIT 6.1-1

PROJECTED INCOME STATEMENTS

PRESENTED UNDER 'SCENARIO TWO'
IN THE B.E.S. CUPS STRATEGIC EVALUATION DOCUMENT

<table>
<thead>
<tr>
<th></th>
<th>YEAR ONE</th>
<th>YEAR TWO</th>
<th>YEAR THREE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1988 / 89</td>
<td>1989 / 90</td>
<td>1990 / 91</td>
</tr>
<tr>
<td><strong>SALES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Sales</td>
<td>11,016</td>
<td>18,328</td>
<td>20,364</td>
</tr>
<tr>
<td>Less Sales Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET SALES</strong></td>
<td>11,016</td>
<td>18,328</td>
<td>20,364</td>
</tr>
<tr>
<td><strong>COSTS OF MANUFACTURE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw Materials</td>
<td>2,200</td>
<td>3,450</td>
<td>3,834</td>
</tr>
<tr>
<td>Direct Labour</td>
<td>1,100</td>
<td>1,725</td>
<td>1,917</td>
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<tr>
<td>Production Overheads</td>
<td>1,650</td>
<td>2,588</td>
<td>2,875</td>
</tr>
<tr>
<td>Inwards Freight</td>
<td>550</td>
<td>862</td>
<td>958</td>
</tr>
<tr>
<td>Machinery Rental Costs</td>
<td>84</td>
<td>84</td>
<td>84</td>
</tr>
<tr>
<td>Depreciation Plant</td>
<td>146</td>
<td>217</td>
<td>173</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>5,730</td>
<td>8,926</td>
<td>9,841</td>
</tr>
<tr>
<td><strong>GROSS MARGIN</strong></td>
<td>5,286</td>
<td>9,402</td>
<td>10,523</td>
</tr>
<tr>
<td><strong>GENERAL EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>991</td>
<td>1,650</td>
<td>1,833</td>
</tr>
<tr>
<td>Administration</td>
<td>1,212</td>
<td>2,016</td>
<td>2,240</td>
</tr>
<tr>
<td>R&amp;D Expenses</td>
<td>110</td>
<td>183</td>
<td>204</td>
</tr>
<tr>
<td>Depreciation Bus. Equip.</td>
<td>12</td>
<td>22</td>
<td>32</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL Non Int. Exp.</strong></td>
<td>2,325</td>
<td>3,871</td>
<td>4,309</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>2,961</td>
<td>5,531</td>
<td>6,214</td>
</tr>
<tr>
<td><strong>ADD Interest Earned</strong></td>
<td>3</td>
<td>62</td>
<td>365</td>
</tr>
<tr>
<td><strong>LESS S/T Interest</strong></td>
<td>30</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LESS L/T Interest</strong></td>
<td>22</td>
<td>111</td>
<td>196</td>
</tr>
<tr>
<td><strong>TAXABLE INCOME</strong></td>
<td>2,912</td>
<td>5,482</td>
<td>6,383</td>
</tr>
<tr>
<td><strong>INCOME TAX</strong></td>
<td>1,427</td>
<td>2,686</td>
<td>3,128</td>
</tr>
<tr>
<td><strong>PROFIT AFTER TAX</strong></td>
<td>1,485</td>
<td>2,796</td>
<td>3,255</td>
</tr>
</tbody>
</table>
general element of strategy was the desirability of expanding capacity to meet current and growing demand. In financial investment terms, this boiled down to the need to acquire and finance extra capital equipment.

Develop A Broader Concept Of The Marketplace

It was clear that the company could not fulfill its potential by regarding itself as a 'clean foam cup maker'. Its enhanced definition of itself as a 'producer of end-user disposable convenience containers' was a mandatory perspective and liberating force.

Production Of An Enhanced Product Range

The 'convenience container' perspective demanded a broadened product range. In the very short term, it was desirable to add two specific categories of products to the cup range: (1) serviettes and (2) food containers (i.e. tubs for containing items such as french fries and soft-serve ice cream etc.).

The margins on serviette and tub manufacture were in excess of 65%. This was more than double the existing average gross margin on standard cups. Moreover, the expansion of the product range would actually lead to more sales of standard cup products. This was because purchasers favoured being able to obtain as many of their convenience container requirements as possible from the one source. Focus group and depth interview research presented in the plan indicated that the non-existence of complementary products had been B.E.S. Cups' single biggest marketing impediment.

The company had the dies for production of specialty food containers but it had hitherto lacked the capital to run a shift devoted to their output or to assign sales representatives the task of securing firm orders. Finally, it was ascertained that, the company desperately needed to acquire a serviette machine. Retailers tended to buy their serviettes - the simplest and most generic of all 'convenience container' products since they were little more than cut and folded pieces of paper - from whomever supplied their more elaborate requirements such as cups and food containers. The productivity of serviette machines was substantial. A machine costing $50,000 was
capable of producing product with an annual sales value of over $4 million. The big problem in the serviette market was marketing: winning a customer base. B.E.S. Cups had a customer base to hand. The company's customers were positively desirous (since it would lower their purchasing overheads) of buying their serviettes from the company as soon as it could demonstrate capacity to maintain a reliable supply.

Key Specific Assumptions And Arguments Of The Two Scenarios

OPTION ONE: CHANGED PRODUCT MIX, SAME CAPITAL BASE

At the time of writing the plan (May 1988), the business could be shown to have responded vigorously to the corporate doctoring regime described in previous sections. It was currently very profitable on the basis of a $2 million turnover almost exclusively comprised of sales of standard cups - the least profitable container. Scenario one of the business plan argued that, without any further capital additions, profitability could be substantially increased by allocating more machines to specialty cups and food containers. A comparison of annual productivity per machine per product is set out below, in exhibit 6.1-2.

**EXHIBIT 6.1-2**

**PRODUCT PROFITABILITY PROJECTION SCHEDULE**

<table>
<thead>
<tr>
<th></th>
<th>STANDARD</th>
<th>SPECIALTY</th>
<th>FOOD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CUPS</td>
<td>CUPs</td>
<td>CONTAINERS</td>
</tr>
<tr>
<td>Annual Sales per Machine</td>
<td>$264,000</td>
<td>$348,000</td>
<td>$600,000</td>
</tr>
<tr>
<td>Gross Margin %</td>
<td>30%</td>
<td>40%</td>
<td>65%</td>
</tr>
<tr>
<td>Gross Margin per Machine</td>
<td>$79,200</td>
<td>$139,200</td>
<td>$390,000</td>
</tr>
</tbody>
</table>

Having demonstrated effective demand, it was argued that it was entirely feasible to employ the existing 16 machines in the following manner: 8 on standard cups; 4 on specialty cups and 4 on food
containers. This would result in a turnover of over $5 million per year at a level of 90% machine efficiency.

**OPTION TWO: EXPANDED CAPITAL BASE FOR TEN TIMES TURNOVER IN THREE YEARS**

This scenario was predicated on the first general strategic guideline: expanding capacity to meet demand. It involved a capital investment of $1 million: $500,000 in 1988/89 and $500,000 in 1989/90. Exhibit 6.1-3 details the projected capital acquisition and machine deployment schedules for each of these first two projected years. Exhibits 6.1-4 and 6.1-5 project schedules of manufacturing sales and costs (down to the gross margin line) based on the assumption that the capital investment was undertaken.

These schedules were at the heart of the business plan's projected income statements, presented in exhibit 6.1-1, above. The 1988/89 and 1989/90 sales and manufacturing cost figures in the projected income statements represented 90% of the amounts shown in the schedules. This allowed for the non-productive time involved in installing new plant. The 1990/91 sales and cost projections were 100% of the amounts shown in the schedule of exhibit 6.1-5. Based on company history and industry benchmarks, marketing expenses were budgeted at 9% of gross sales; administration expenses were budgeted at 11% of gross sales and research and development expenses were budgeted at 1% of gross sales.

Interest on any cash surplus was calculated at 15% of the year's beginning cash balance and was deemed to be fully received by the end of the year. During 1988/89, 19% interest on $155,000 short-term borrowings (balance as per June 1988) was projected. Thereafter, the business was projected to generate cash surpluses sufficient to eliminate short-term borrowings. The 1988/89 year was assumed to commence with long-term loans of $128,000 carried over from June, 1988. In both 1988/89 and 1989/90, the business was projected to purchase $500,000 worth of capital plant as described. Long-term loan interest rate was assumed to be 17%. The corporate tax rate assumption was 49%. To avoid inestimable accruals, it was assumed that tax would be fully paid in the year in which it was incurred.
### EXHIBIT 6.1-3

**PROJECTED CAPITAL ACQUISITION AND MACHINE DEPLOYMENT SCHEDULES**

#### 1988/1989

<table>
<thead>
<tr>
<th>(1) CAPITAL ACQUISITIONS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MACHINES</strong></td>
<td></td>
</tr>
<tr>
<td>8 Cup Machines @ $40,000</td>
<td>$320,000</td>
</tr>
<tr>
<td>1 Serviette Machine @ $50,000</td>
<td>$50,000</td>
</tr>
<tr>
<td>Automated Packing Outlets</td>
<td>$30,000</td>
</tr>
<tr>
<td><strong>TOTAL MACHINES</strong></td>
<td><strong>$400,000</strong></td>
</tr>
<tr>
<td><strong>INFRASTRUCTURE</strong></td>
<td></td>
</tr>
<tr>
<td>Boiler</td>
<td>$25,000</td>
</tr>
<tr>
<td>Air Compressors</td>
<td>$30,000</td>
</tr>
<tr>
<td>Upgrade S.E.C.</td>
<td>$20,000</td>
</tr>
<tr>
<td>Contingencies</td>
<td>$25,000</td>
</tr>
<tr>
<td><strong>TOTAL INFRASTRUCTURE</strong></td>
<td><strong>$100,000</strong></td>
</tr>
<tr>
<td><strong>TOTAL CAPITAL ACQUISITIONS</strong></td>
<td><strong>$500,000</strong></td>
</tr>
</tbody>
</table>

| (2) MACHINE DEPLOYMENT |  |
|------------------------|  |
| Standard Cups | Specialty Cups | Containers | Serviettes |
| 16 | 4 | 4 | 1 |

#### 1989/1990

<table>
<thead>
<tr>
<th>(1) CAPITAL ACQUISITIONS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MACHINES</strong></td>
<td></td>
</tr>
<tr>
<td>10 Cup Machines @ $40,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>1 Serviette Machine @ $50,000</td>
<td>$50,000</td>
</tr>
<tr>
<td><strong>TOTAL MACHINES</strong></td>
<td><strong>$450,000</strong></td>
</tr>
<tr>
<td><strong>INFRASTRUCTURE</strong></td>
<td></td>
</tr>
<tr>
<td>Capital Installations</td>
<td>$50,000</td>
</tr>
<tr>
<td><strong>TOTAL CAPITAL ACQUISITIONS</strong></td>
<td><strong>$500,000</strong></td>
</tr>
</tbody>
</table>

| (2) MACHINE DEPLOYMENT |  |
|------------------------|  |
| Standard Cups | Specialty Cups | Containers | Serviettes |
| 20 | 7 | 7 | 2 |
EXHIBIT 6.1-4

B.E.S CUPS PROPRIETARY LIMITED
PROJECTED SCHEDULE OF MANUFACTURING SALES AND COSTS 1988-1989

<table>
<thead>
<tr>
<th></th>
<th>STANDARD CUPS</th>
<th>SPECIALTY CUPS</th>
<th>FOOD CONTAINERS</th>
<th>SERVIETTES</th>
<th>SALES TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Machines</td>
<td>16</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>Annual Sales Per Machine</td>
<td>264,000</td>
<td>348,000</td>
<td>600,000</td>
<td>4,224,000</td>
<td>5,436,000</td>
</tr>
<tr>
<td>Gross Annual Sales</td>
<td>4,224,000</td>
<td>1,392,000</td>
<td>2,400,000</td>
<td>4,224,000</td>
<td>12,240,000</td>
</tr>
<tr>
<td>Cost Of Manufacture (Percent of Sales)</td>
<td>70%</td>
<td>60%</td>
<td>35%</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>Cost Of Goods Manufactured</td>
<td>2,956,800</td>
<td>835,200</td>
<td>840,000</td>
<td>1,478,400</td>
<td>6,110,400</td>
</tr>
<tr>
<td>Manufacturing Costs Breakdown</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Materials</td>
<td>1,182,720</td>
<td>334,080</td>
<td>336,000</td>
<td>591,360</td>
<td>2,444,160</td>
</tr>
<tr>
<td>Fuels &amp; Overheads</td>
<td>887,040</td>
<td>250,560</td>
<td>252,000</td>
<td>443,520</td>
<td>1,833,120</td>
</tr>
<tr>
<td>Labour</td>
<td>591,360</td>
<td>167,040</td>
<td>168,000</td>
<td>295,680</td>
<td>1,222,080</td>
</tr>
<tr>
<td>Freight</td>
<td>295,680</td>
<td>83,520</td>
<td>84,000</td>
<td>147,840</td>
<td>611,040</td>
</tr>
<tr>
<td>Gross Margin (Before Plant Depreciation)</td>
<td>2,956,800</td>
<td>835,200</td>
<td>840,000</td>
<td>1,478,400</td>
<td>6,110,400</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>1,267,200</td>
<td>556,800</td>
<td>1,560,000</td>
<td>2,745,600</td>
<td>6,129,600</td>
</tr>
</tbody>
</table>
## EXHIBIT 6.1-5

**B.E.S CUPS PROPRIETARY LIMITED**  
**PROJECTED SCHEDULE OF MANUFACTURING SALES AND COSTS 1989-1990**

<table>
<thead>
<tr>
<th></th>
<th>STANDARD CUPS</th>
<th>SPECIALTY CUPS</th>
<th>FOOD CONTAINERS</th>
<th>SERVIETTES</th>
<th>SALES TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Machines</td>
<td>20</td>
<td>7</td>
<td>7</td>
<td>2</td>
<td>36</td>
</tr>
<tr>
<td>Annual Sales Per Machine</td>
<td>264,000</td>
<td>348,000</td>
<td>600,000</td>
<td>4,224,000</td>
<td>5,436,000</td>
</tr>
<tr>
<td>Gross Annual Sales</td>
<td>5,280,000</td>
<td>2,436,000</td>
<td>4,200,000</td>
<td>8,448,000</td>
<td>20,364,000</td>
</tr>
<tr>
<td>Cost Of Manufacture (Percent of Sales)</td>
<td>70%</td>
<td>60%</td>
<td>35%</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>Cost Of Goods Manufactured</td>
<td>3,696,000</td>
<td>1,461,600</td>
<td>1,470,000</td>
<td>2,956,800</td>
<td>9,584,400</td>
</tr>
</tbody>
</table>

### Manufacturing Costs Breakdown

- **Materials**: 1,478,400  
- **Fuels & Overheads**: 1,108,800  
- **Labour**: 739,200  
- **Freight**: 369,600

<table>
<thead>
<tr>
<th></th>
<th>1,478,400</th>
<th>584,640</th>
<th>588,000</th>
<th>1,182,720</th>
<th>3,833,760</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,108,800</td>
<td>438,480</td>
<td>441,000</td>
<td>887,040</td>
<td>2,875,320</td>
</tr>
<tr>
<td></td>
<td>739,200</td>
<td>292,320</td>
<td>294,000</td>
<td>591,360</td>
<td>1,916,880</td>
</tr>
<tr>
<td></td>
<td>369,600</td>
<td>146,160</td>
<td>147,000</td>
<td>295,680</td>
<td>958,440</td>
</tr>
</tbody>
</table>

| Cost Of Goods Manufactured | 3,696,000 | 1,461,600 | 1,470,000 | 2,956,800 | 9,584,400 |

| Gross Margin (Before Plant Depreciation) | 1,584,000 | 974,400   | 2,730,000 | 5,491,200 | 10,779,600 |
6.1.3 Salient Features of Case Execution

(1) Salient Communications Features

• Key Message Element - A Change Of Strategic Focus

The researcher began the B.E.S. Cups Entrepreneurial Business Planning document by emphasising that the subject company was not just in the 'foam cup business' or even the 'cup business'. It was in an arena at once much vaster and more precise, which could be defined as follows:

'The company was in the business of supplying end user disposable convenience containers.'

In this definition a serviette, for instance, is a 'container' (it 'contains' small scale spillage, etc.). So is a nursery pot and so are thousands of items which are not cups, per se. Obviously, to participate in this larger market, the starting point was an extended range of cups and a focus on association with retail provision of food and beverages. Consideration of the company's marketing and organisational situation presented the three strategic guidelines developed above: to expand capacity; to broaden the company's marketing concept; and to enhance its product range.

• A Very Clear Notion Of The Target Audience For The Business Plan

The enhanced Entrepreneurial Business Planning paradigm is adamant about the linked importance of: closely defining the receiver of the planning message, understanding the likely decoding of messages by that receiver and, accordingly, structuring a different iteration of the plan for each defined target audience (see, above, chapter four, passim). In the B.E.S. Cups case, the target audience was defined, in a confidential business planning protocol, as:

'Major manufacturers, either involved in or associated with the convenience container industry and who would be unhappy about a significant competitor acquiring the B.E.S. business.'

Invitations to scrutinise the plan, advertisements and screening of replies were carefully designed to attract only those potential investors in the hope of securing a situation where well-established packaging manufacturing
competitors could not afford not to investigate the offer (for fear that their competitors were sure to do so) and, upon scrutiny of the document, would not only evaluate the worth of the business as an adjunct to their own existing operations but would be likely to build in a premium for the value of the business not being acquired by a competitor. This environment was felt likely to help generate a larger number of tender offers for the business than a mass appeal to that nebulous entity, the 'general investor', or an approach to venture capitalists. This communications approach proved to be very successful, as section 6.1.4, below, demonstrates.

(2) Salient Control Features

- 'Stop The Bleeding' Phase: Immediate Operational Changes

The EBP planning process was simultaneously a 'corporate doctoring' process: to 'stop the bleeding'. The disastrous 1987 situation (negative owner's equity of $635,000 in June 1987) had to be made secure before future planning could be credibly contemplated. The researcher formed a team with the entrepreneur, Barry White of B.E.S. Cups, and the representative of the major creditor, David Lurie of Henty Corporation. Together, in early 1988, employing the enhanced EBP paradigm prescriptions, they worked fast and hard to execute a major re-structuring of B.E.S.'s approach and activities. This even went down to the level of tidying the layout and painting the factory premises inside and out. However, the major features of the 'stop the bleeding' campaign were:

- Change of raw material supplier and securing two (rather than one) sources of raw materials supply.
- Institution of a simple but effective materials testing system.
- Extension of the product range to include containers with higher gross margins.
- Substantial enhancement of the quality of all products.
- Re-establishment of the goodwill of all customers.
- Commitment to become the most service-oriented producer in the industry with an excellent contact network and trusted reputation amongst buyers.

These achievements were demonstrated by the excellent results of 1987/88:
• sales rose from $1,349,000 to $1,874,000;
• gross profit rose from negative $2,000 to $822,000;
• non-interest expenses rose by a mere $2,000;
• and net profit rose from negative $389,000 to positive $433,000.

It was these results, audited by the chartered accounting firm of Stanton Partners, which formed the evidential basis for credible projections in the business plan.

• Organisation And Production System - A Mixed Blessing

The business was a capital intensive process manufacturing plant operating with high levels of productivity and efficiency. On the positive side, the company differed from its rivals due to its ability to design and build its own capital machinery in-house. Hence it was demonstrable that of the three competitors (B.E.S., R.I.S. and DEEKO), B.E.S. had the most cost-efficient and productive plant and was the only company with the ability to create advantages out of future technological innovation.

On the negative side, the plant was very unorthodox. It owed its innovative but capricious configuration to the idiosyncratic brilliance of the entrepreneur, Barry White, and was therefore heavily dependent upon his specific skills for maintenance and development.3

(3) Salient Simulation Features

• Potency And Utility Of The Financial Model

Throughout the corporate doctoring and Entrepreneurial Business Planning processes, the financial model of the business, built by the author, was the key management tool for testing the impact on B.E.S.'s total financial situation of every potentially significant expenditure proposition. This is what made Henty Corporation Limited, the major creditor and de facto controller of the business, prepared to keep funding B.E.S. while the plan was being prepared. Henty's directors could explore options and see the utility and ultimate profitability flowing from each funding decision.

3 Section 7.1.1, below, which compares attributes across cases, discusses White's entrepreneurial strengths and weaknesses in relation to the other three case study entrepreneurs.
• Presentation Of Dual Base-Case Scenarios

Ultimately, as reported in previous sections, two projected scenarios were presented in the document. OPTION I involved no further outlay on capital equipment but a redeployment of machinery to products with higher margins than standard cups. This simple option offered the potential to double current dollar turnover and profitability with no increase in capital outlay. OPTION 2 postulated capital expenditure of $500,000 in each of the pending two financial years as a means of achieving far greater growth.

Normally, the prescriptions of the enhanced EBP paradigm indicate the desirability of presenting only one 'base-case' scenario in the EBP document and inviting prospective investors to ask questions specific to them which generate alternatives specific to their needs. However, in this case, the development of the first scenario was the best way to develop a 'credibility base' for the growth-oriented projections of the second scenario. Thus, the two options 'cohabited' very successfully and actually concentrated and strengthened the appeal to a single target audience (existing manufacturers as defined above) rather than diversifying and weakening the appeal by attempting too general an appeal to diverse target audiences. Option one was just as focused upon existing manufacturers as was option two, but it had appeal to the 'spoilers' rather than the 'growers' among them. The author defined the 'spoilers' as potential acquirers who might be more interested in gaining control of B.E.S. Cups to thwart a competitor than in gaining control with a view to exploiting the market and growth opportunities inherent in clean foam technology.

6.1.4 CASE OUTCOMES: RESULTS OF PARADIGM APPLICATION

Marketing communication of the business plan successfully solicited genuine interest from over fifteen manufacturers including, inter alia: Amcor, the Pratt Group, the Smorgon Group, Confoil, Deeko, R.I.S. and Lilypak (Hygienic-Lily).

Section 5.2.2, above, presented the two generic sub-questions for this case study research design. The first was:

---

4 Refer to chapter 4, above, especially sections 4.4 and 4.5.5
**Sub-question (a).** 'Did this business plan, produced by application of the enhanced EBP paradigm, induce an investor to supply the level of funds sought by the plan or a level of funds sufficient for achieving the plan's objectives?

In the B.E.S. case, the answer is an unequivocal 'yes'.

In the confidential protocol agreed at the start of the rehabilitation and planning process by Barry White (for B.E.S. Cups), David Lurie and Marcus Rose (for Henty Corporation) and this author, it was agreed that any market price in excess of $700,000 which also provided an equity stake and continued employment for at least one year for White, would be accepted and represent an excellent result. It would provide funds sufficient to repay Henty all money due to it plus a premium and the balance would represent a premium-enhanced return of capital to B.E.S. shareholders. In addition, the entity would still exist and, if owned by a manufacturer with appropriate capital backing, would be likely to go on and fulfil its high growth potential.

In the event, five formal tenders were received, all exceeding the undisclosed minimum acceptable price. The winning bid, slightly in excess of $1,500,000, came from Confoil Proprietary Limited, and was accepted in late 1988.

In interview with the author, shortly after the sale had been finalised, the technical director of Confoil, Mr Werner Denby, said:

>'The B.E.S. Cups strategic evaluation document [Entrepreneurial Business Plan] was very important for our decision making. Of course, we performed our own analysis, had different directions in mind and made decisions by our own lights, but your planning document was definitely the starting point - a real catalyst. It opened up possibilities and suggested lines of thought we would never have considered without it. I am prepared to say that it was seminal to our making the investment. Definitely. Without the document and the possibilities it suggested, we would not have made the investment.'

In the larger scheme of the research reported in this thesis, the B.E.S. Cups case is only peripherally involved with generic sub-question (b) - 'Did execution of the plan's prescriptions result in achievement of the plan’s
objectives? - for the obvious reason that the plan's stated objectives became obsolete at the instant of Confoil's purchase. Henceforth, the business was destined for a completely different strategy and plan as a sub-division of Confoil rather than a market entity in its own right as the plan projected.

Nevertheless, the results pertaining to sub-question (a) alone provide sufficient grounds to claim that the B.E.S. Cups Case provides a strong affirmative answer to the case research's core question (section 5.2.2, above): the enhanced EBP paradigm worked.

For the sake of case closure, it is interesting and pertinent to trace, briefly, the history of the absorbed B.E.S. Cups as a division of Confoil. For the history of the cups division in Confoil, the author is deeply grateful to that company and, in particular, its general manager, Dr. Wolfgang Rosenkotter, who was interviewed by the author on 7 and 8 December, 1995.

Confoil is a company which would make an informative and heartening case study in its own right, as an example of an innovative and successful Australian manufacturing firm. At the time of its acquisition of B.E.S. Cups, Confoil had risen, due to the pioneering and innovation of its founding directors, to a position of prominence as a supplier of metal-foil containers to the bakery and fast food industries: items such as the takeaway trays used by outlets such as Red Rooster, Pampas, Herbert Adams, Sarah Lee and Ansett Airlines, all major Confoil accounts at the time. The company considered that the acquisition would have substantial and obvious benefits, including diversification into non-metal containers and the ability to sell synergistically to existing customers without substantially increased expenditures in promotion, salesforce or distribution.

Unfortunately, the cups division was not a commercial success due primarily to three factors. First, the idiosyncrasies of the machinery designed and built by Barry White were difficult to accommodate to the more disciplined structure of the larger firm. Second, Barry White himself could not come to terms with the cultural changes involved in becoming technical manager of a large company division rather than total controller of a small company and left Confoil within six months. Third, substantially detrimental unforeseen events rapidly diminished the attractiveness and profitability of the clean foam (EPS) containers market within the fast food industry.
When the current general manager, Dr Wolfgang Rosenkotter, joined Confoil in the early 1990s, it became apparent that the White-designed, unorthodox plant lacked the robustness to ensure constant high-quality production at the volume levels required for achievement of economies of scale. The corporate-oriented engineers who re-designed White's plant took a long time to effect the required improvements. Fortunately, Confoil directors and Dr Rosenkotter, new to the general manager's job, were undaunted. Rosenkotter had trained, inter alia, at BTR Nylex in the management of industrial firms under the rigorous leadership of Australian corporate legend, Alan Jackson. He and the company's directors built a dedicated project team. By 1992, they eventually achieved the combination of innovative problem solution (White's entrepreneurial hallmark) with reliable capacity to deliver highest quality product at sustained high volumes (the corporate and commercial necessity).

Meanwhile, these achievements on the supply side were undermined by unfavourable developments in the marketplace. Prices for clean foam cups - $26 per thousand in 1988 at the time of this author's composition of the business plan - had fallen to $19 per thousand in 1992 and were down to $12 per thousand in September 1995. This negative trend was fuelled by raw materials suppliers creating classical oligopolistic price-war effects by offering substantial discounts to converters who would pass the savings on to the market in the hope of increasing their market share. Confoil considered various value-adding options such as enhancing the containers with colour and printing, but all projections were unfavourable to profitability.

The market had moved - 'clean' foam was suddenly seen in a 'dirty' light. One incident illustrates this vividly. In the late days of the Kirner State Government, draft legislation was being considered to add a one-cent levy to every foam cup sold in Victoria - a move which of course would have completely eliminated foam cups from the market. This initiative was inspired by misconception. In fact, EPS (clean foam) is a relatively environment-friendly material: but it looks dreadful as litter. The mooted legislation resulted when a socialist-left faction cabinet minister, appalled after a football match at the sight of used foam cups blowing about the empty stands, had visions of Victoria's entire countryside becoming blighted by indestructible plastic. The levy was never implemented but it was a real possibility and the story is symptomatic of a range of negative market attitudes which decreased the attractiveness of the medium.
Eventually, the decision was taken to sell the plant. The transaction took place in September 1995, with the buyer being Phoenix, a company started by an ex-R.I.S. executive. The sale price achieved the plant's book value. While the foam cup division did not reach Confoil's profit expectations or requirements, the fundamental business strength of that dynamic and innovative company has seen it emerge from the experience with several positives including an enhanced ability to blend innovation with robustness in plant design and a strong experiential base for its approach to future acquisition candidates.

For this research, the most positive aspect of the history of the cups division at Confoil concerns that fundamental yardstick of entrepreneurial ventures: growth. History proved the basic growth projections of the author's Entrepreneurial Business Plan to have been obtainable. Through all the negative market developments between 1989 and 1995, Confoil more than doubled its market share (to over 40% of the clean foam cup market) in a market which itself had doubled. When the division was sold in 1995, it was selling a reliable average of six million cups per month - more than four times the volume of the best sales month ever achieved at the time of writing the original B.E.S. Cups business plan.
NOTE

The pagination of this thesis has been organised so that the pages can be printed double-sided.

As a result, there were blank pages at the end of some chapters, so that the first page of a new chapter always appeared on the page that faced up.

These blank pages are missing from this version of the thesis.

The pages involved are: vi, 32, 128, 302, 326, 224 and 344.
6.2 CASE TWO: THE WIRRILLA BUSINESS PLAN

6.2.1 CASE PRESCRIPT: DEFINING CIRCUMSTANCES

- 1980s Debt-Wrecking In The General Australian Economy And The Dilemma Confronting Holders Of Non-Performing Loans

A major feature of the 1980s Australian financial landscape was a phenomenon which this author calls 'debt-wrecking'. In the late 1980s and early 1990s the Australian economy was littered with businesses which were operationally profitable (i.e. they had acceptable earnings before interest and tax) but technically insolvent due to inability to meet the interest payments on debt. If they could have been freed of the shackles of debt, some of these businesses would have demonstrated the high-growth potential desired by 'traditional' venture capitalists (minus many of the risks associated with startups). The 1980s 'debt-wrecking' had three major causes:

- mishandled financial deregulation (Martin Committee 1991) and (I.C. Report 18, 1991);
- gearing blowouts based on overheated asset markets, (Falkiner 1991);
- continued high real interest rates (Boyd 1992).

This left lenders with a major dilemma. The banks and larger financial intermediaries became de facto equity holders. Under loan covenants, they effectively owned and controlled the debt-wrecks. The sheer volume of non-performing loans was so vast - over 20% of total loan portfolios in some cases (Falkiner 1991: 5) - that traditional write-off policies could not be applied without severely damaging the value of the total portfolio. If losses of this magnitude were to be fully realised, it was even possible that lenders themselves would become technically insolvent because of failure to meet capital adequacy ratios set by the Reserve Bank of Australia.

Australian lenders, including all the major banks, were thus in dangerous and uncharted waters. Their lenders' dilemma was dramatic: they could not afford to write off many non-performing loans and they lacked the techniques, skills and staff suitable to effect business turnarounds. Even if they could have effected turnarounds, there was no obvious market for the 'saved' businesses.
1980s 'Debt-Wrecking' In The Specifically Rural Industrial Context

The 1980's saw debt levels in the rural sector rise to unprecedented levels. In the early part of the decade, debt per farm in broadacre agriculture surged from relatively low levels to peak around 1985-1987 before declining towards the latter part of the decade (Peterson et al. 1991: passim).

Prior to the 1980s, farm and grazing property operators in the Australian rural sector did not have access to the myriad of financial fund raising instruments and options available in the city-based corporate sector. The 1980s boom in real asset values dramatically changed the pattern of rural borrowing. From being financed through mortgage, retained earnings and moderate levels of short-term working capital finance, many farmers became unsophisticated asset speculators. The asset boom coincided with a period of sharply falling real farm incomes due, mainly, to fluctuations of the Australian dollar and a drop in rural commodity prices (especially the staples of wheat and wool). Declining incomes increased the percentage of farm earnings needed to service existing debt leaving less available for working capital and to buffer seasonal fluctuations. Asset speculation had disastrous affects on rural borrowers when the property boom ended in 1990. As real estate asset values slumped, highly-geared farmers were unable to meet interest commitments and security ratios (Cribb 1990). Stutchbury (1991: 55) showed that the combination of a continued cost-price squeeze, and the effects of overgearing during the mid and late 1980s saw aggregate terms of trade for farmers plummet from an index of 250 in 1961 to 150 in 1981 to under 100 in 1991. The net value of aggregate farm production was less than 2 billion (1991) dollars. It was nearly 12.5 billion dollars in 1971.

An Example Of A Rural Debt-wreck: Wirrilla Pty Ltd
A Negative History Of Debt Growth And Equity Uninterest.

Summary details of the business.

The subject business of this second case was Wirrilla Pty Ltd, a 1,241 hectare asparagus farm situated near the town of Jugiong in southern New South Wales. It was a classic example of a rural debt-wreck. Its

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6 All references to Wirrilla's operations are taken from the Wirrilla Business Plan, CASE 2, of the data base filed in Volume II.
owner/farmer/entrepreneur was Mr David Power and the lender, carrying its non-performing loan, was Elders Rural Finance Limited which, at the time of case execution (1991, 1992 and 1993), was a major Australian financial intermediary which had been very active in lending to the rural sector during the asset boom of the 1980s but was currently seeking to liquidate its portfolio of rural loans.

Wirrilla was a value-added exporter of premium fresh asparagus. The property included a processing and packaging factory of world-competitive standard, extensive mineral deposits and substantial adjunct farming and pastoral capacity. In itself, the productive enterprise, the asparagus farming, export business and associated activities of Wirrilla formed a dynamic, efficient and profitable enterprise.\(^7\)

In 1991, Wirrilla generated operating profits (earnings before interest and tax) of over one million dollars from sales of over four million dollars and was demonstrably capable of substantial and rapid increases in both turnover and profitability - if capital were available. But, given that Wirrilla's current financial structure was untenable (it owed Elders nearly 10 million dollars by early 1991) and Australian rural industry was in crisis (as described in the previous sub-sections, above) capital was patently not available. Wirrilla was overgeared to such an extent that its profits from operations were insufficient to cover the interest payments due on its debt to Elders Rural Finance Limited. The unpaid interest was accruing and increasing the debt burden. Defaults on loan covenants had made Elders the de facto controller of Wirrilla's destiny, with the right and power to place the business in liquidation at any time.

Mr Power, the entrepreneur, had spent many years pioneering Australia's premier asparagus export operation to a stage where Wirrilla - productively - was one of the most efficient and high-quality operations of its kind in the world. The hardest battle - won over the last five years - had been the need to meet the stringent quality controls demanded by the Japanese market. By 1991, Wirrilla's 'Power Brand' Asparagus was recognized as the premier Australian brand in Japan, with an eight per cent share of the seasonal

\(^7\) As part of the business planning process, the author commissioned a video production which depicts the operations of the farm and quickly enabled a prospective investor to understand the dynamics of the business. The video is filed as part of the case archive and is available, upon written request, to bona fide scholars. Viewing it obviously injects a measure of vitality into the case which goes beyond what the printed word is able to convey. The marketing utility of the video will be briefly discussed in section 6.2.3, below.
market. Moreover, measured by area under cultivation, Wirrilla was the largest asparagus farm in the southern hemisphere. However, financed largely by debt to Elders, the cost of getting the business to this stage had been, for Mr Power and Wirrilla, greater than the rewards. Summary financial data as at June 30, 1991 are set out below, in exhibit 6.2-1

EXHIBIT 6.2-1
WIRRILLA SUMMARY FINANCIAL INFORMATION ($,000s) 30 JUNE, 1991

<table>
<thead>
<tr>
<th>Total Assets</th>
<th>Total Liabs.</th>
<th>Net Worth</th>
<th>EBIT</th>
<th>NPAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,287</td>
<td>10,054</td>
<td>(7,767)</td>
<td>288</td>
<td>(1,340)</td>
</tr>
</tbody>
</table>

Wirrilla’s financial position had steadily deteriorated from the early 1980s onwards. Exhibit 6.2-2 demonstrates the growth of the company’s liabilities and accumulated losses. It should be noted that Wirrilla had been almost self-funding on operations (not requiring extra loan principle) since 1988. The primary cause of rapid debt growth since 1988 had been Wirrilla’s inability to meet interest payments as they fell due. Note how the gap between the principal and accrued interest and the advances and repayments widened considerably from 1989 to 1991. As the unpaid interest accrued and the accumulated losses grew, the 'jaws of debt' opened wider.

FIGURE 6.2-2
WIRRILLA A BREAK EVEN OPERATION IN THE 'JAWS OF DEBT'

Source: Wirrilla Taxation Records
• Elders Rural Finance Limited’s Determination To Sell
  The Business And The Eventual Application Of The
  Author's Entrepreneurial Business Planning Methods

By 1991, the entrepreneur, David Power, had totally lost effective control of
his business. The de facto owner was Elders and the key decision maker was
Elders’ portfolio manager, Mr Robert Mittag. Elders, through Mr Mittag,
could have forced Wirrilla into liquidation at any time. Moreover, Wirrilla
was totally dependent upon Elders for the basic cashflow required for day-to-
day survival. In many key respects, Wirrilla was a classic example of a debt-
wrecked Australian rural enterprise. In a traditional, conservative,
financial perspective, it could fairly be described as a ‘basket case’;
chronically insolvent. The bedrock situation facing Wirrilla and Elders
Rural Finance in late 1991 was a fire sale, (based on current, minimum, raw
asset valuations) of 2.5 million dollars.

Elders charged its investment manager, Mr Robert Mittag, with the
responsibility for executing a sale of Wirrilla. Since, at board level, Elders
had taken the decision to liquidate its non-performing loans as quickly as
possible - the value of the non-performing loan had formally been written
down to the fire sale price of 2.5 million dollars in Elders accounts - Mr
Mittag found himself in a quandary. He had a feeling that the intrinsic
worth of Wirrilla was far greater than the fire sale price on offer, but had
satisfied himself and the board of Elders that all traditionally-available
methods for seeking an equity investor or outright buyer had been tried.
Past attempts to raise equity finance had been varied, continuous and
universally unsuccessful for over eight years. They involved, inter alia,
 attempts to list the company on the stock exchange and employment of a
variety of professional consultants with specialist skills in areas such as the
sale of rural real-estate; valuation and realisation of mineral-rich properties
and traditional techniques of business turnaround. At a meeting in July,
1991, Mr Mittag said:

‘We’ve tried just about everything - there is no buyer interest.’

It was at this stage that the author was given an opportunity to utilize
Wirrilla as a research case.
As a final-year part-time Masters of Innovation and Enterprise degree candidate at Swinburne University of Technology\(^8\), Mr Mittag was a student in the author's class entitled: 'Growth Venture Evaluation' and therefore familiar with the author's emerging EBP paradigm and his search for suitable cases for testing its efficacy. From the author's point of view, the Wirrilla case was ideal for testing his EBP paradigm. There was unequivocal, documented agreement from a professional loans and equity portfolio manager and the board of the most experienced rural finance company\(^9\) in Australia that 'everything had been tried' and that they were willing to accept a price of 2.5 million dollars for the business. An amount in excess of that would be directly attributable to the author's application of his enhanced EBP paradigm through the writing and dissemination of a business plan created according to its prescriptions.

In September of 1991, with much scepticism, Elders Rural Finance's Board commissioned the author to commence work on a brief, believed (by all but Mr Mittag) to be 'impossible'. Since Wirrilla owed Elders Rural Finance very close to 10 million dollars at this time, it might be thought that Elders had nothing to lose by letting the author make the attempt to earn them more than the paltry 2.5 million dollars on offer.\(^10\) However, there was some feeling that any delay in accepting the fire sale price might result in an even lower figure. Besides, the board had no desire to continue servicing the cashflow requirements of Wirrilla or do anything much beyond ridding itself of its non-performing loan portfolio. So, the Elders' Board was sceptical and the nominal owner of Wirrilla, David Power, was hostile.\(^11\) To begin with, only Robert Mittag had any faith in the efficacy of the author's EBP planning paradigm. To Mr Mittag, for the opportunity to execute the case and his unstinting support during the creation and several iterations of the Wirrilla business plan, the author is deeply grateful.

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\(^8\) In late 1991, Swinburne was still known as Swinburne Institute of Technology - its University charter was delivered in June, 1992.

\(^9\) This is no hyperbole. A mid-19th century merger of three companies made Elders Smith and Goldsborough Mort Limited the largest rural trading and export company in Australia and a commanding force in the Australian economy - a position which its descendent still held at the time of the commissioning of the Wirrilla Business Plan.

\(^10\) The arrangement between Elders and the author involved no payments up-front. A sliding fee scale, contingent upon success, was negotiated as well as the right to include the case in his PhD thesis and other scholarly publications.

\(^11\) The author has worked in many business turnaround situations and is familiar - as are all who work in business reconstruction situations - with what is colloquially known as the 'my friends are my enemies' syndrome. The entrepreneur sees all who wish to help him as enemies seeking to take his business from him. The attributes of David Power as an entrepreneur are discussed in juxtaposition to the three other case entrepreneurs on pages 261 and 262, below.
6.2.2 SUMMARY OF THE FIRST WIRRILLA BUSINESS PLAN

With intensive work, the first version of the Wirrolla business plan and marketing strategy was completed in December, 1991. The plan, executed according to the prescriptions of the author's emerging EBP paradigm, placed a negotiable opening value of 7.5 million dollars on the restructured Wirrolla. The offer did not (as all previous offers had done) include Mr Power's homestead block of 300-hectares (750-acres), conservatively valued at $500,000. The plan was assiduous in endeavouring to ensure that Mr Power and his family would retain their home. So, the value of the homestead block needed to be added to the price achieved to calculate Elders Rural Finance's actual yield from any sale which eventually might be obtained.12

The plan showed that Wirrolla had been a productive success but a financial failure. This gave rise to one dominant strategic imperative: eliminate the debt and re-capitalise Wirrolla with predominantly equity finance. The proposed method of sale eliminated all debt but retained access to accumulated tax credits for which the cash flow benefits were substantial.13 The asking price of $7,500,000 was projected to earn a compound annual internal rate of return approaching 15% over the five years of the business plan and produce a business which, by the end of projected year five, would have a net worth approaching $15 million (without allowing for any increase in land value). A strategy was developed which provided for appropriate capital restructuring and was incorporated in a comprehensive but adaptable five-year business plan. The plan was detailed in a financial model which could be used both as an on-going management tool and as a means for performing sensitivity analysis in response to the particular questions and requirements of individual prospective investors.14 Most importantly, the plan was based on perceiving Wirrolla as a strategically positioned, value-added exporter, rather than as a mere 'primary producer' - a point which will be expanded as a salient feature of case execution in the next section.

12 Elders intended, subject to performance, to let Mr Power 're-earn' his family home.
13 The ability to retain the tax credits was not a foregone conclusion. Mr Mittag allows that the a plan of the author's was the key ingredient in being able to pass them on to whomsoever might become Wirrolla's buyer. The author conceived of a way of so doing which, though at first opposed as 'impossible' (meaning, really, 'we've never seen a precedent') eventually, was supported by the legal opinion of senior commercial council for Elders. The whole case was fraught with such innovations, but a full reporting of them all would detract from rather than add to the major narrative thrust of the case.
14 See Appendix A-4.
Evidence of the value of the business and appropriateness of the suggested strategy was furnished by: a thorough marketing, organizational, operational, management and strategic analysis; a full suite of detailed, annotated proforma financial statements for the next 5 years; a separate volume containing eight appendices relevant to the due diligence process; consideration of the potential to mechanize many labour-intensive operations; access to further documentation and material upon request; a video showing the business operating in peak season; a comprehensive description of the background to the investment opportunity and over eighty plates, tables and figures providing succinct encapsulation of a variety of vital information, including twelve colour plates which illustrated the process of production from harvest to international dispatch.

Exhibits 6.2-3, 6.2-4 and 6.2-5 contain the five-year financial proforma statements projected in the (December 1991) first edition of the plan. Exhibits 6.2-6, 6.2-7 and 6.2-8 contain graphical summaries of salient features of this projected financial performance.
### EXHIBIT 6.2-3

**WIRRILLA PTY LTD**

**PROJECTED INCOME STATEMENTS (AUSTRALIAN DOLLARS)**

<table>
<thead>
<tr>
<th></th>
<th>Jul 1-Jun 3</th>
<th>Jul 1-Jun 3</th>
<th>Jul 1-Jun 3</th>
<th>Jul 1-Jun 3</th>
<th>Jul 1-Jun 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asparagus Operations</td>
<td>4,486,268</td>
<td>5,537,840</td>
<td>7,610,925</td>
<td>9,372,236</td>
<td>12,089,309</td>
</tr>
<tr>
<td>Mineral Extraction</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Other Agric. &amp; Pastoral</td>
<td>158,000</td>
<td>166,000</td>
<td>170,000</td>
<td>174,000</td>
<td>174,000</td>
</tr>
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<td><strong>NET INCOME</strong></td>
<td>4,894,268</td>
<td>5,953,840</td>
<td>8,030,925</td>
<td>9,796,236</td>
<td>12,513,309</td>
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<td><strong>DIRECT COSTS OF INCOME EARNED</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Materials Used</td>
<td>437,840</td>
<td>534,355</td>
<td>743,143</td>
<td>914,553</td>
<td>1,182,111</td>
</tr>
<tr>
<td>Direct Labour</td>
<td>1,692,940</td>
<td>2,050,397</td>
<td>2,840,004</td>
<td>3,480,933</td>
<td>4,463,956</td>
</tr>
<tr>
<td>Overheads</td>
<td>105,506</td>
<td>130,303</td>
<td>187,505</td>
<td>233,807</td>
<td>307,348</td>
</tr>
<tr>
<td>Freight &amp; Customs</td>
<td>1,046,688</td>
<td>1,313,385</td>
<td>1,723,872</td>
<td>2,109,960</td>
<td>2,698,508</td>
</tr>
<tr>
<td>Rentals</td>
<td>103,533</td>
<td>94,637</td>
<td>82,139</td>
<td>91,498</td>
<td>100,406</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>3,385,507</td>
<td>4,123,077</td>
<td>5,576,663</td>
<td>6,830,751</td>
<td>8,751,969</td>
</tr>
<tr>
<td><strong>GROSS MARGIN</strong></td>
<td>1,508,761</td>
<td>1,830,763</td>
<td>2,454,262</td>
<td>2,965,485</td>
<td>3,761,340</td>
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<tr>
<td><strong>GENERAL EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>97,885</td>
<td>119,077</td>
<td>160,619</td>
<td>195,925</td>
<td>250,266</td>
</tr>
<tr>
<td>Administration</td>
<td>374,003</td>
<td>374,003</td>
<td>441,278</td>
<td>441,278</td>
<td>508,553</td>
</tr>
<tr>
<td>Research &amp; Development</td>
<td>210,000</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
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<td>Depreciation Non Plant</td>
<td>1,630</td>
<td>1,467</td>
<td>1,320</td>
<td>1,188</td>
<td>1,070</td>
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<td>Other</td>
<td>15,000</td>
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<td>10,000</td>
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<td><strong>TOTAL Non Int. Exp.</strong></td>
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<td>544,547</td>
<td>668,217</td>
<td>698,391</td>
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<td><strong>EBIT</strong></td>
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<td>1,286,216</td>
<td>1,786,045</td>
<td>2,267,094</td>
<td>2,941,451</td>
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<td><strong>ADD Interest Earned</strong></td>
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<td>81,005</td>
<td>147,508</td>
<td>311,900</td>
<td>544,357</td>
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<td><strong>LESS S/T Interest</strong></td>
<td>60,000</td>
<td>60,000</td>
<td></td>
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<tr>
<td><strong>TAXABLE INCOME</strong></td>
<td>815,243</td>
<td>1,307,221</td>
<td>1,933,553</td>
<td>2,578,994</td>
<td>3,485,808</td>
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<td><strong>INCOME TAX</strong></td>
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<td></td>
<td>905,899</td>
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<tr>
<td><strong>PROFIT AFTER TAX</strong></td>
<td>815,243</td>
<td>1,307,221</td>
<td>1,933,553</td>
<td>2,578,994</td>
<td>2,579,009</td>
</tr>
</tbody>
</table>
## EXHIBIT 6.2-4

**WIRRILLA PTY LTD**

**PROJECTED CASHFLOW STATEMENTS (AUSTRALIAN DOLLARS)**

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<tbody>
<tr>
<td><strong>CASH RECEIPTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts From Income</td>
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<td>5,865,542</td>
<td>7,857,835</td>
<td>9,649,127</td>
<td>12,286,886</td>
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<td>Interest Receipts</td>
<td>50,000</td>
<td>81,005</td>
<td>147,508</td>
<td>311,900</td>
<td>544,357</td>
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<tr>
<td>Additions to S/T Loan</td>
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<td></td>
<td></td>
<td></td>
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<tr>
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<tr>
<td>Addit. to Other S/T Liab.</td>
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<tr>
<td>Addit. to Other L/T Liab.</td>
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<td></td>
</tr>
<tr>
<td>Additions to Equity</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>TOTAL RECEIPTS</strong></td>
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<td>5,946,547</td>
<td>8,005,343</td>
<td>9,961,027</td>
<td>12,831,243</td>
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<td><strong>OPERATING DISBURSEMENTS</strong></td>
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<td>Materials Payments</td>
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<td>914,553</td>
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<tr>
<td>Direct Labour Costs</td>
<td>1,692,940</td>
<td>2,050,397</td>
<td>2,840,004</td>
<td>3,480,933</td>
<td>4,463,596</td>
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<td>Direct Overheads Costs</td>
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<td>130,303</td>
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<td>233,807</td>
<td>307,348</td>
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<tr>
<td>Freight &amp; Customs Costs</td>
<td>1,045,688</td>
<td>1,313,385</td>
<td>1,723,872</td>
<td>2,109,960</td>
<td>2,698,508</td>
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<td>Rentals Costs</td>
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<td></td>
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<tr>
<td>Non-Salaries Marketing</td>
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<td>119,077</td>
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<td>195,925</td>
<td>250,266</td>
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<td>64,278</td>
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<td>150,000</td>
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<td>Other S/T Asset Purchases</td>
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<td>Other L/T Asset Purchases</td>
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<tr>
<td>S/T Interest P/ments</td>
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<tr>
<td>Income Tax</td>
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<tr>
<td>Repay S/T Loan Principle</td>
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<td></td>
</tr>
<tr>
<td>Repay L/T Loan Principle</td>
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<td></td>
</tr>
<tr>
<td>Other Trading Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Salaries Expenses</td>
<td>318,500</td>
<td>318,500</td>
<td>377,000</td>
<td>377,000</td>
<td>435,500</td>
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<tr>
<td><strong>NON TRADING DISBURSEMENTS</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Equity Reductions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Non-trading disb.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL OUTLAYS</strong></td>
<td>4,226,362</td>
<td>5,281,520</td>
<td>6,361,421</td>
<td>7,636,456</td>
<td>9,470,382</td>
<td></td>
</tr>
<tr>
<td><strong>NET CASH FLOW</strong></td>
<td>310,050</td>
<td>665,028</td>
<td>1,643,922</td>
<td>2,324,571</td>
<td>3,360,861</td>
<td></td>
</tr>
<tr>
<td><strong>BEG CASH BALANCE</strong></td>
<td>500,000</td>
<td>810,050</td>
<td>1,475,078</td>
<td>3,118,999</td>
<td>5,443,570</td>
<td></td>
</tr>
<tr>
<td><strong>END CASH BALANCE</strong></td>
<td>810,050</td>
<td>1,475,078</td>
<td>3,119,000</td>
<td>5,443,570</td>
<td>8,804,431</td>
<td></td>
</tr>
</tbody>
</table>
**EXHIBIT 6.2-5**

**WIRRILLA PTY LTD**

**PROJECTED BALANCE SHEETS (AUSTRALIAN DOLLARS)**

<table>
<thead>
<tr>
<th></th>
<th>At June 30</th>
<th>At June 30</th>
<th>At June 30</th>
<th>At June 30</th>
<th>At June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SHAREHOLDERS FUNDS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Subscribed</td>
<td>6,233,000</td>
<td>6,233,000</td>
<td>6,233,000</td>
<td>6,233,000</td>
<td>6,233,000</td>
</tr>
<tr>
<td>General Reserve</td>
<td>5,000,000</td>
<td>5,000,000</td>
<td>5,000,000</td>
<td>5,000,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Other Reserves</td>
<td>2,330,000</td>
<td>2,330,000</td>
<td>2,330,000</td>
<td>2,330,000</td>
<td>2,330,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>(6,982,757)</td>
<td>(5,675,536)</td>
<td>(3,741,983)</td>
<td>(1,162,989)</td>
<td>1,416,920</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td>6,580,243</td>
<td>7,887,464</td>
<td>9,821,017</td>
<td>12,400,011</td>
<td>14,979,920</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash &amp; S/T Deposits</td>
<td>810,050</td>
<td>1,475,078</td>
<td>3,118,999</td>
<td>5,443,570</td>
<td>8,804,431</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>407,856</td>
<td>496,153</td>
<td>669,244</td>
<td>816,353</td>
<td>1,042,776</td>
</tr>
<tr>
<td>Inventory (Mats &amp; L'stack)</td>
<td>103,000</td>
<td>103,000</td>
<td>103,000</td>
<td>103,000</td>
<td>103,000</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Cur. Assets</strong></td>
<td>1,320,906</td>
<td>2,074,231</td>
<td>3,891,243</td>
<td>6,362,923</td>
<td>9,950,207</td>
</tr>
<tr>
<td><strong>Non Current Assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant at W.D.V.</td>
<td>794,667</td>
<td>700,030</td>
<td>817,891</td>
<td>926,393</td>
<td>825,986</td>
</tr>
<tr>
<td>Non-Plant at W.D.V.</td>
<td>164,671</td>
<td>313,204</td>
<td>311,883</td>
<td>310,695</td>
<td>309,626</td>
</tr>
<tr>
<td>Land and Buildings</td>
<td>4,800,000</td>
<td>4,800,000</td>
<td>4,800,000</td>
<td>4,800,000</td>
<td>4,800,000</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Non Cur. Ass.</strong></td>
<td>5,759,338</td>
<td>5,813,234</td>
<td>5,929,774</td>
<td>6,037,088</td>
<td>5,935,612</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>7,080,243</td>
<td>7,887,464</td>
<td>9,821,017</td>
<td>12,400,011</td>
<td>15,885,819</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short Term Borrowings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Income Tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Cur. Liabs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>905,899</td>
</tr>
<tr>
<td><strong>Non Current Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long Term Loans</td>
<td>500,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Non Current Liabs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Non Cur Liab</strong></td>
<td>500,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>500,000</td>
<td></td>
<td></td>
<td></td>
<td>905,899</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td>6,580,243</td>
<td>7,887,464</td>
<td>9,821,017</td>
<td>12,400,011</td>
<td>14,979,920</td>
</tr>
</tbody>
</table>
GRAPHICAL SUMMARY OF SALIENT FEATURES OF THE FINANCIAL PROJECTIONS OF THE FIRST EDITION

EXHIBIT 6.2-6  INCOME STATEMENT SUMMARY

EXHIBIT 6.2-7  CASH FLOW STATEMENT SUMMARY

EXHIBIT 6.2-8  BALANCE SHEET SUMMARY
Some of the major elements supporting the projections are summarised below.

- **Critical Stage Of Product And Market Life Cycles**

Power Brand Asparagus (Wirrilla's registered brand name) was a proven product. Its production system met stringent export quality standards. At the same time, the export market - as a market - was in a stage of explosive growth. Over the last 10 years, Australia to Asia exports of asparagus had grown at an average of 120% per year, compound annual growth. (Source: Australian Asparagus Association). In the author's analysis, this combination of a market undergoing a steep growth curve with a brand and business having achieved productive maturity was the essence of what might provide a potential investor in a 'new' Wirrilla with the basis for positive due diligence results. All the painful, expensive and inevitable difficulties of entrepreneurial learning and development were over but all the benefits of cashing in on a steep demand curve awaited.

- **Marketing Mix Summary**

The core *product* was technically sound and well developed in all its extensions. Export premium *pricing* was capable of being maintained by virtue of quality positioning. *Promotion* (marketing communications mix) was summarised by the achievement of number one Australian brand status in Japan. *Place* was characterised by an excellent packaging and distribution system which met the stringent Japanese criteria for excellence and saw the company enjoy an established position with key players in the often complex channels of Japanese distribution.

- **Australia Was The Regional Market Share Leader In Asparagus Exports To Japan**

Exhibit 6.2-9 was sourced from Australian Bureau of Statistics data, cross referenced with data from Japan’s MITI organisation and figures obtained from The Australian Asparagus Growers' Association. In the business plan, it presented the 'top end' picture of the pattern of total Japanese seasonal asparagus imports (in season 1990) for the months September to December, when Northern Hemisphere suppliers are out of season.

The figures show Australia's market dominance.
### EXHIBIT 6.2-9

**Market Shares of the Top Four National Asparagus Seasonal Exporters to Japan**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
<th>Sept-Dec Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TOTAL ALL COUNTRIES</td>
<td>426,827</td>
<td>1,622,652</td>
<td>1,576,287</td>
<td>966,659</td>
<td>4,502,425</td>
</tr>
<tr>
<td></td>
<td>Kilograms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yen (Thousands)</td>
<td>381,545</td>
<td>1,166,444</td>
<td>1,065,648</td>
<td>720,253</td>
<td>3,333,800</td>
</tr>
<tr>
<td></td>
<td>Ave Price per kilo, Yen</td>
<td>748</td>
<td>659</td>
<td>610</td>
<td>922</td>
<td>735</td>
</tr>
<tr>
<td></td>
<td>Ave Price per kilo, $A</td>
<td>$6.99</td>
<td>$6.16</td>
<td>$5.70</td>
<td>$6.62</td>
<td>$6.87</td>
</tr>
<tr>
<td></td>
<td>Total Value $A/Australian</td>
<td>3,565,812</td>
<td>10,893,259,962,806</td>
<td>6,730,986</td>
<td>31,138,695</td>
<td>100.00%</td>
</tr>
<tr>
<td>1</td>
<td>AUSTRALIA</td>
<td>223,379</td>
<td>967,138</td>
<td>887,162</td>
<td>331,587</td>
<td>2,409,266</td>
</tr>
<tr>
<td></td>
<td>Kilograms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yen (Thousands)</td>
<td>221,598</td>
<td>713,517</td>
<td>619,123</td>
<td>262,551</td>
<td>1,816,789</td>
</tr>
<tr>
<td></td>
<td>Ave Price per kilo, Yen</td>
<td>992</td>
<td>737</td>
<td>698</td>
<td>792</td>
<td>805</td>
</tr>
<tr>
<td></td>
<td>Ave Price per kilo, $A</td>
<td>$9.27</td>
<td>$8.89</td>
<td>$6.52</td>
<td>$7.40</td>
<td>$7.52</td>
</tr>
<tr>
<td></td>
<td>Total Value $A/Australian</td>
<td>2,070,953</td>
<td>6,661,502</td>
<td>5,787,281</td>
<td>2,454,354</td>
<td>16,974,100</td>
</tr>
<tr>
<td>2</td>
<td>NEW ZEALAND</td>
<td>9,090</td>
<td>402,859</td>
<td>483,789</td>
<td>396,871</td>
<td>1,293,409</td>
</tr>
<tr>
<td></td>
<td>Kilograms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yen (Thousands)</td>
<td>8,394</td>
<td>288,805</td>
<td>330,875</td>
<td>301,748</td>
<td>930,622</td>
</tr>
<tr>
<td></td>
<td>Ave Price per kilo, Yen</td>
<td>849</td>
<td>719</td>
<td>684</td>
<td>760</td>
<td>753</td>
</tr>
<tr>
<td></td>
<td>Ave Price per kilo, $A</td>
<td>$7.93</td>
<td>$6.72</td>
<td>$6.39</td>
<td>$7.10</td>
<td>$7.04</td>
</tr>
<tr>
<td></td>
<td>Total Value $A/Australian</td>
<td>78,473</td>
<td>2,707,062</td>
<td>3,092,632</td>
<td>2,818,927</td>
<td>6,697,064</td>
</tr>
<tr>
<td>3</td>
<td>THAILAND</td>
<td>190,214</td>
<td>194,620</td>
<td>121,833</td>
<td>161,790</td>
<td>668,457</td>
</tr>
<tr>
<td></td>
<td>Kilograms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yen (Thousands)</td>
<td>149,791</td>
<td>138,981</td>
<td>87,228</td>
<td>118,508</td>
<td>494,508</td>
</tr>
<tr>
<td></td>
<td>Ave C&amp;F Price per kilo, Yen</td>
<td>787</td>
<td>714</td>
<td>716</td>
<td>732</td>
<td>738</td>
</tr>
<tr>
<td></td>
<td>Total Value $A/Australian</td>
<td>1,399,916</td>
<td>1,298,888</td>
<td>815,215</td>
<td>1,107,551</td>
<td>4,607,426</td>
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<tr>
<td>4</td>
<td>PHILIPPINES</td>
<td>1,974</td>
<td>47,908</td>
<td>83,503</td>
<td>62,811</td>
<td>196,196</td>
</tr>
<tr>
<td></td>
<td>Kilograms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yen (Thousands)</td>
<td>789</td>
<td>16,417</td>
<td>28,622</td>
<td>22,460</td>
<td>68,288</td>
</tr>
<tr>
<td></td>
<td>Ave Price per kilo, Yen</td>
<td>400</td>
<td>343</td>
<td>343</td>
<td>358</td>
<td>361</td>
</tr>
<tr>
<td></td>
<td>Ave Price per kilo, $A</td>
<td>$3.74</td>
<td>$3.21</td>
<td>$3.21</td>
<td>$3.35</td>
<td>$3.37</td>
</tr>
<tr>
<td></td>
<td>Total Value $A/Australian</td>
<td>7,379</td>
<td>153,574</td>
<td>267,678</td>
<td>210,153</td>
<td>638,784</td>
</tr>
</tbody>
</table>

(Sources: ABS, MITI and The Australian Asparagus Growers' Association)

Australia dominated international seasonal supply with over 52% of the market. Add New Zealand (28%), and Thailand (14%) and 94% of seasonal imports are accounted for by three nations. The next largest competitor, the Philippines, had only 4% share and the rest were very small indeed.

The opportunity for Australian producers to increase their dominance of the market abounded. The Australian Asparagus Growers' Association expected that the next set of fully integrated figures (not due until 1992) would show that New Zealand had lost share (due to climatic and quality control difficulties) to around 18% and Thailand to around 12% giving Australia nearly 65% of the market and growing. Australia had natural advantages which other countries simply could not match. The two main ones were sheer availability of arable land mass and constantly improving knowledge and efficiencies from being ‘further along the learning curve’ than other asparagus-producing nations of the region.
A "Percentage Portrait" Of Wirrilla

Exhibit 6.2-10 presents what was called, in the business plan, a 'percentage portrait' of Wirrilla.

The chart positioned Wirrilla strategically and gave vivid illustration to the parameters of both past and future strategies for the business.

* While only being five percent of total Australian production, Wirrilla executed all of that production on one closely controlled facility: it was the biggest single asparagus farm in the southern hemisphere. The vast majority of Australian asparagus was grown on small holdings of only one or two acres - plots which were merely small adjuncts to farms whose major activities and focus lay elsewhere. The total dedication of Wirrilla to large scale concentration on excellence in asparagus production was totally unique.

* The figure of Wirrilla possessing less than 2% of total domestic sales was indicative of Wirrilla's sharp focus on being a high value-added exporter rather than a 'me-too' primary producer. This was the major perspective of Wirrilla projected in the plan: the perspective of a dynamic, brand-conscious, export business, rather than in terms of the simple generic category of 'farm' or 'primary producer'.
* This perspective was clearly illustrated by the final three bars on the graph. Contrast Wirrilla’s insignificant percentage of domestic sales with the highly significant status of accounting for over 13% of all Australian exports and over 15% of all Australian asparagus exports to Japan.

* Finally, in 1990, Wirrilla alone supplied over 8% of total international asparagus imports into the Japanese seasonal market. It was confidently expected that in season 1991 (for which aggregate figures were not available at time of writing the plan) Wirrilla’s share of the total, internationally supplied, Japanese seasonal market would exceed 10%.\(^{15}\)

This was the key figure in the percentage portrait of Wirrilla: a portrait of a single-minded concentration on achievement of export excellence and strategic market niche positioning. The enterprise, in less than ten years since first taking the decision to broach export as well as domestic markets and despite all its other woes, had achieved brand and quality leadership against world competition in the toughest marketplace in the world: Japan.

This was the strategic perspective from which projections were made.

The technical basis of those projections was an argument based on yield and production allocation expectations of the land (exhibit 6.2-11) and a construct called the ‘weighted average cost per standard kilo’ of product produced (exhibit 6.2-12). These were combined to produce a total revenue and cost forecast down to the gross margin line (exhibit 6.2-13).

---

**EXHIBIT 6.2-11**

**FIVE-YEAR PROJECTIONS OF TOTAL YIELD AND PRODUCT ALLOCATION**

<table>
<thead>
<tr>
<th>ANNUAL TABLE OF CAPACITY YIELD AND ALLOCATION PROJECTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>YEAR 1</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Total Producing Hectares</td>
</tr>
<tr>
<td>Average Kilos Yield per Hectare</td>
</tr>
<tr>
<td>Percentage to Domestic</td>
</tr>
<tr>
<td>Percentage to Export Bulked</td>
</tr>
<tr>
<td>Percentage to Export Bunched</td>
</tr>
</tbody>
</table>

---

\(^{15}\) As will be seen shortly, Wirrilla’s next season - conducted under the auspices of the business plan - was a record. MITI figures subsequently confirmed that seasonal exports from Wirrilla represented 10.4% of total imports.
**EXHIBIT 6.2-12**

**WEIGHTED AVERAGE COST PER 'STANDARD' KILO FORECAST YEAR ONE**

<table>
<thead>
<tr>
<th></th>
<th>DOLLARS</th>
<th>PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES PRICE</strong></td>
<td>6.90</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>COSTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>FIELD</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour</td>
<td>0.10</td>
<td>1.43%</td>
</tr>
<tr>
<td>Materials</td>
<td>0.12</td>
<td>1.75%</td>
</tr>
<tr>
<td>Direct O/H</td>
<td>0.02</td>
<td>0.25%</td>
</tr>
<tr>
<td><strong>Sub-total Field</strong></td>
<td>0.24</td>
<td>3.44%</td>
</tr>
<tr>
<td><strong>HARVEST</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour</td>
<td>1.23</td>
<td>17.85%</td>
</tr>
<tr>
<td>Materials</td>
<td>0.10</td>
<td>1.43%</td>
</tr>
<tr>
<td>Direct O/H</td>
<td>0.02</td>
<td>0.25%</td>
</tr>
<tr>
<td><strong>Sub-total Harvest</strong></td>
<td>1.35</td>
<td>19.53%</td>
</tr>
<tr>
<td><strong>PROCESSING</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour</td>
<td>1.22</td>
<td>17.63%</td>
</tr>
<tr>
<td>Materials</td>
<td>0.41</td>
<td>5.99%</td>
</tr>
<tr>
<td>Direct O/H</td>
<td>0.12</td>
<td>1.76%</td>
</tr>
<tr>
<td><strong>Sub-total Processing</strong></td>
<td>1.75</td>
<td>25.38%</td>
</tr>
<tr>
<td><strong>TOTAL ON FARM COSTS</strong></td>
<td>3.34</td>
<td>48.35%</td>
</tr>
<tr>
<td><strong>FREIGHT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>0.17</td>
<td>2.39%</td>
</tr>
<tr>
<td>Export</td>
<td>1.44</td>
<td>20.92%</td>
</tr>
<tr>
<td><strong>Sub-total Freight</strong></td>
<td>1.61</td>
<td>23.31%</td>
</tr>
<tr>
<td><strong>Total LABOUR</strong></td>
<td>2.55</td>
<td>36.91%</td>
</tr>
<tr>
<td><strong>Total MATERIALS</strong></td>
<td>0.63</td>
<td>9.18%</td>
</tr>
<tr>
<td><strong>Total OVERHEADS</strong></td>
<td>0.16</td>
<td>2.26%</td>
</tr>
<tr>
<td><strong>Total FREIGHT</strong></td>
<td>1.61</td>
<td>23.31%</td>
</tr>
<tr>
<td><strong>TOTAL AT MARKET COSTS</strong></td>
<td>4.95</td>
<td>71.66%</td>
</tr>
<tr>
<td><strong>GROSS MARGIN</strong></td>
<td>1.96</td>
<td>28.34%</td>
</tr>
</tbody>
</table>
**EXHIBIT 6.2-13**

**TOTAL REVENUE AND COST FORECAST YEAR 1 (SPRING SEASON)**

<table>
<thead>
<tr>
<th>AGGREGATE DOLLARS (wgt/ave cost per kg times total kg)</th>
<th>DOLLARS</th>
<th>DOLLARS</th>
<th>PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASPARAGUS SALES</strong></td>
<td></td>
<td>4,486,268</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>COSTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Field</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour</td>
<td>64,350</td>
<td>1.43%</td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td>78,650</td>
<td>1.75%</td>
<td></td>
</tr>
<tr>
<td>Direct O/H</td>
<td>11,216</td>
<td>0.25%</td>
<td></td>
</tr>
<tr>
<td>Sub-total Field</td>
<td>154,216</td>
<td>3.44%</td>
<td></td>
</tr>
<tr>
<td>Harvest</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour</td>
<td>800,800</td>
<td>17.85%</td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td>64,350</td>
<td>1.43%</td>
<td></td>
</tr>
<tr>
<td>Direct O/H</td>
<td>11,216</td>
<td>0.25%</td>
<td></td>
</tr>
<tr>
<td>Sub-total Harvest</td>
<td>876,366</td>
<td>19.53%</td>
<td></td>
</tr>
<tr>
<td>Processing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour</td>
<td>790,790</td>
<td>17.63%</td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td>268,840</td>
<td>5.99%</td>
<td></td>
</tr>
<tr>
<td>Direct O/H</td>
<td>79,074</td>
<td>1.76%</td>
<td></td>
</tr>
<tr>
<td>Sub-total Processing</td>
<td>1,138,704</td>
<td>25.38%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL ON FARM COSTS</strong></td>
<td></td>
<td>2,169,286</td>
<td>48.35%</td>
</tr>
<tr>
<td><strong>FREIGHT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>107,250</td>
<td>2.39%</td>
<td></td>
</tr>
<tr>
<td>Export</td>
<td>938,438</td>
<td>20.92%</td>
<td></td>
</tr>
<tr>
<td>Sub-total Freight</td>
<td>1,045,688</td>
<td>23.31%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL AT MARKET COSTS</strong></td>
<td></td>
<td>3,214,973</td>
<td>71.66%</td>
</tr>
<tr>
<td><strong>GROSS MARGIN</strong></td>
<td></td>
<td>1,271,294</td>
<td>28.34%</td>
</tr>
</tbody>
</table>
6.2.3 SALIENT FEATURES OF CASE EXECUTION

(1) Major Communication Feature: A Change Of Message Focus

Before commencing marketing of Wirrilla, over forty organizations were contacted to provide target market data subsequently used in the formulation of a marketing strategy radically differing from the 'standard' procedures usually applied to sale of businesses in Australia and the approaches adopted by Elders Rural Finance and its consultants in all previous unsuccessful attempts to sell the business. The adopted strategy included:

* the production of a first class corporate video presentation;
* a large display advertisement published in the 'Business Opportunities' section of The Australian Financial Review;
* and circulation of an abridged introductory document containing key financial information for initial inquirers.

The contrast between the marketing approach adopted by the author and all previous approaches is perhaps best illustrated by the contrast between exhibits 6.2-14 and 6.2-15.

Exhibit 6.2-14 was typical of the advertisements used prior to the author's application of his EBP paradigm techniques. It adopts what might be called a 'real-estate/asparagus' approach. That is to say, it is totally product oriented and thus effectively limits its appeal to an investor who felt confident about Australian agriculture in general and row-cropping in particular. That is to say (given the debilitated state of rural industry in Australia at the time as demonstrated in previous sections) it limited its audience to effectively no-one! And nil was the response which this oft-repeated advertisement obtained.

In contrast, exhibit 6.2-15 is the advertisement designed and executed by the author and published in the 'Business Opportunities' section of The Australian Financial Review in December 1991 to attract potential buyers of the business. It was oriented entirely differently. The focus was on strategic positioning and financial return - two appeals calculated to attract a wide-range of potential investors and at least give the advertisement a chance of being read. The word 'asparagus' was relegated to body copy. It was an incidental item. The message focus was upon the achievement of export market share in the difficult and lucrative Japanese market.
The number of respondents to just one placement of this advertisement\textsuperscript{16} exceeded total responses from all previous marketing efforts over five years and the quality and interest level of the 'average' inquiry was substantially higher. This result was achieved despite the published sale price of Wirrilla being more than double any previously advertised figure.

\textbf{EXHIBIT 6.2-14}

\textbf{AN EXAMPLE OF PRE-BUSINESS PLAN PRODUCT-ORIENTED COMMUNICATION\textsuperscript{17}}

\begin{center}
\begin{tabular}{|c|c|}
\hline
\textbf{Elders REAL ESTATE} & \\
\hline
\textbf{FOR SALE} & \\
\hline
\textbf{ASPARAGUS} & \\
\textbf{A farming and processing operation} & \\
\textbf{Expressions of interest are sought for one of the largest and most efficient privately-owned asparagus farming and export processing operations in Australia being a part of a major rural enterprise.} & \\
Located in South Eastern New South Wales, the asparagus operation services both the export and domestic fresh product markets, with limited quantities despatched to canneries. & \\
The current owners are open to offers for participation in this commercially attractive business, either through purchase or by way of a joint venture. & \\
Parties interested in this operation, and who are capable of a capital outlay, in the range of $2-3 million should, in the first instance, submit expressions of interest to: & \\
Mr R. B. Wheeler & \\
15-27 Kincard Street & \\
WAGGA WAGGA, & \\
(069) 21 2097, & \\
(069) 21 8867 (FAX) & \\
\hline
\end{tabular}
\end{center}

\textsuperscript{16} Eleven - of whom four turned out to be seriously interested prospective buyers once they had secured and examined a copy of the business plan.

\textsuperscript{17} It is interesting to note that in this advertisement, released just before the commissioning of the author to try his enhanced EBP paradigm, the offered price is a range: $2 million to $3 million. Elsewhere, Elders always referred to $2.5 million as the 'fire sale price.'
EXHIBIT 6.2-15
AN EXAMPLE OF POST-BUSINESS PLAN STRATEGY-ORIENTED COMMUNICATION

BUY EXPORT POWER

MARKET SHARE & PROVEN PROFITABILITY
PREMIER BRAND IN JAPANESE MARKET

THE COMPANY is a value-added exporter, of premium fresh asparagus produced on a magnificent rural property which includes a processing and packaging factory of world-competitive standard, extensive mineral deposits and diverse farming and pastoral capacity.

THE BUYER will be a serious investor contemplating an acquisition in excess of $7 million (Aust.) for which it will obtain: branded market leadership in Japan; proven operational profitability; the experience of nearly 20 years pioneering in this product; usable tax credits of nearly $A7 million and rapid growth prospects yielding a projected internal rate of return on investment of over 15% for a net worth of over $A15 million within five years.

THE AGENT will provide a video and summary details in the first instance. Suitably qualified prospective investors will then be provided with a comprehensive, pro-active information memorandum and strategic evaluation of the business and all access relevant to an informed, prompt decision.

INITIAL INQUIRIES: contact the sole agents,

Mutual Solutions Pty Ltd
32 Young St • Kew • Vic. • 3101

ROB HARRISON: Mobile (018) 392 492
Alternate (03) 822 1886

ROBERT MITTAG: City (03) 518 7834
After Hours (03) 882 1913

FACSIMILE: (03) 862 3720

A UNIQUE OPPORTUNITY
(2) Major Control Feature: Elders Was The De Facto Owner

The most salient feature of control in the execution of this case has already been mentioned. It is that Elders, the lending organisation and not the entrepreneur, David Power, had effective control of the business. De facto, Elders was the owner.

(3) Major Simulation Feature: Planned Projections Were To Be Tested

In the B.E.S. Cups case (section 6.1, above) the projections of the business plan were never to be effectively tested since the strategy and nature of the business changed immediately upon its acquisition by Confoil. As the next section explains, events were to provide a market-based test of the accuracy of the Wirrilla business plan's projected financial performance and the opportunity to execute further iterations.

6.2.4 CASE OUTCOMES: RESULTS OF PARADIGM APPLICATION

The advertisement reproduced as exhibit 6.2-15, above, was run in the Australian Financial Review twice in mid-December, 1991. The first placement solicited eleven responses and the second placement resulted in seven replies. In addition, direct marketing approaches to the investment portfolio managers of several merchant banks, venture capital companies and investment managers were made. The initial response to a request for information was to execute a credit check on the requesting entity and secure signing of a confidentiality agreement before sending a brief document entitled Selected Extracts From The Wirrilla Business Plan and a copy of the marketing video, with an invitation to apply for access to the full business plan should genuine potential purchasing interest have been aroused.

By March 1992 these efforts had narrowed the field to three genuinely interested prospective purchasers who were actively engaged in due diligence evaluation and negotiations. Interestingly, all were internationally-based firms:

- Sacks Holdings Australia Pty Ltd was an Israeli-based agricultural exporter seeking to commence an operation based on air-freighting Australian fresh produce to Asian markets.
The Quinmanser Group, based in Boroko (Papua New Guinea) was a rapidly-expanding organisation (with a history stemming from the copra trade), already specialising in the marketing of high-quality fresh produce in the Asia-Pacific region.

- Colwell Kennedy Australia Pty Ltd, acted as agent for a large agricultural and minerals company, a Korean principal which has requested that it not be named in this thesis.

The exercise of due diligence is a slow (and often tedious and frustrating) process. By 20 May 1992, in plenty of time to transfer ownership before commencement of the next asparagus harvest season (which ran from August to December) a written offer of $6,000,000 to purchase the business (less Mr Power's homestead block) had been received from Sacks Holdings and accepted by Elders' Board. However, it eventuated that there was only sufficient time to notify all other interested parties that a deal had been done, before the deal fell to pieces. There is no need in this thesis to chronicle the almost Byzantine legal details of claim and counterclaim involved in the break-up of this deal. The relevant facts are two.

(1) A routine audit showed Mr David Power had made inappropriate use of funds (legally Elders' but under his tutelage) of the order of $50,000 by channelling them to Mr Leslie Sacks of Sacks Holdings as part of an arrangement which breached agreements between Elders and Power on the one hand and Elders and Sacks on the other.

(2) Elders board thereupon declared cessation of all further dealings with Sacks, stood down David Power as manager of Wirrilla, and placed the business in the hands of a receiver.

That could have ended the case study in very inconclusive circumstances except for one thing. The Board now had faith in the author's EBP paradigm and the business plan which had resulted from its application. Elders had been so impressed by the plan's capacity to attract buyer interest and by the credibility of the projections contained in the plan that their earlier 'sell at the fire sale price' mentality had changed. They now determined to run the business during the coming season and readvertise it in January 1993, a course of action embracing four key ingredients.

(1) They forbade David Power any decision-making role whatsoever in the running of Wirrilla.
(2) They appointed Mr Rob Harrison, an experienced manager of rural enterprises, as manager of Wirrilla with a brief to run the enterprise through the coming spring season, on the basis of the strategy and tactics presented in the business plan.

(3) They temporarily refrained from taking any possible legal action against David Power for his misallocation of funds and various breaches of several agreements, and gave him authority to use the business plan in his attempt to put together a consortium to buy Wirrilla. In other words, at this stage, Power was relegated to the status of just another potential buyer of the business. If he were to be able to assemble a group capable of putting in the highest bid when offers were next called for, then he would succeed in reclaiming Wirrilla.

(4) The essence of the strategy was to run the business for a season, using the recommendations of the business plan. This, it was hoped, would produce two benefits. Most importantly, it would demonstrate the efficacy of what the plan claimed was achievable - thus enhancing the credibility of the plan when the business was readvertised in 1993. Secondly, there was simply yield: whatever operating profits were made during that season would be for Elders to keep.

Exhibit 6.2-16 shows the results of running the farm under Mr Harrison's auspices. The left hand column contains all components comprising earnings before interest and tax as projected in the author's business plan. The central column shows the audited actual results of the season and the right hand column is simply the difference between the two.

In summary, the season was the best in Wirrilla's history. It demonstrated the credibility of the plan's assumptions, analysis, recommendations and projections. Mr Harrison said:

"The business plan was vital. Without it, I could not so quickly and so thoroughly have gained an understanding of the history, current status and operating potential of the business. Mr Power was of little help. In fact, the arguments and logic of the plan showed up how poor and illogical a manager he had been for a very long time. I'm immodest enough to say that - to produce the results it projected and which we exceeded - the plan needed to be in the hands of a competent manager with significant experience in running rural enterprise, but it was my key tool in producing such a successful season. The financial
model at the heart of the plan was particularly useful for exploring the likely outcomes of different choices that faced me.'

---

**EXHIBIT 6.2-16**

**WIRRILLA REVENUE AND COST PERFORMANCE**

**A COMPARISON OF PROJECTED WITH ACTUAL RESULTS**

<table>
<thead>
<tr>
<th></th>
<th>YEAR ONE 1992/93</th>
<th>YEAR ONE 1992/93</th>
<th>YEAR ONE DIFFERENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asparagus Revenue</td>
<td>4,486,268</td>
<td>5,033,446</td>
<td>547,178</td>
</tr>
<tr>
<td>Minerals Revenue</td>
<td>250,000</td>
<td>142,662</td>
<td>(107,338)</td>
</tr>
<tr>
<td>General Farming Revenue</td>
<td>158,000</td>
<td>155,592</td>
<td>(2,408)</td>
</tr>
<tr>
<td>Extraordinary Income</td>
<td>0</td>
<td>23,248</td>
<td>23,248</td>
</tr>
<tr>
<td><strong>REVENUE less sales tax</strong></td>
<td>4,894,268</td>
<td>5,354,948</td>
<td>460,680</td>
</tr>
<tr>
<td><strong>DIRECT COSTS OF INCOME EARNED</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Materials Used</td>
<td>437,840</td>
<td>412,702</td>
<td>(25,138)</td>
</tr>
<tr>
<td>Direct Labour</td>
<td>1,692,940</td>
<td>1,617,294</td>
<td>(75,646)</td>
</tr>
<tr>
<td>Overheads</td>
<td>105,506</td>
<td>159,304</td>
<td>53,798</td>
</tr>
<tr>
<td>Freight &amp; Assoc. Costs</td>
<td>1,045,688</td>
<td>1,227,235</td>
<td>181,547</td>
</tr>
<tr>
<td>Production Rentals</td>
<td>0</td>
<td>25,667</td>
<td>25,667</td>
</tr>
<tr>
<td>Depreciation Plant</td>
<td>103,533</td>
<td>42,440</td>
<td>(61,093)</td>
</tr>
<tr>
<td><strong>Total Direct Costs</strong></td>
<td>3,385,507</td>
<td>3,484,642</td>
<td>99,135</td>
</tr>
<tr>
<td><strong>GROSS MARGIN</strong></td>
<td>1,508,761</td>
<td>1,870,306</td>
<td>361,545</td>
</tr>
<tr>
<td><strong>GENERAL EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>97,885</td>
<td>9,817</td>
<td>(88,068)</td>
</tr>
<tr>
<td>Administration</td>
<td>374,003</td>
<td>368,630</td>
<td>(5,373)</td>
</tr>
<tr>
<td>Research &amp; Development</td>
<td>210,000</td>
<td>0</td>
<td>(210,000)</td>
</tr>
<tr>
<td>Depreciation Non Plant</td>
<td>1,630</td>
<td>15,781</td>
<td>14,151</td>
</tr>
<tr>
<td>Bad Debts</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Extraordinary Expenses</td>
<td>0</td>
<td>120,568</td>
<td>120,568</td>
</tr>
<tr>
<td><strong>TOTAL Non Int. Exp.</strong></td>
<td>683,518</td>
<td>514,796</td>
<td>(168,722)</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>825,243</td>
<td>1,355,510</td>
<td>530,267</td>
</tr>
</tbody>
</table>

---

18 The quotation comes from a transcript of interview with Mr Rob Harrison, held on 20 December, 1995. At this time Mr Harrison - who has a well-established reputation as a turnaround manager - was on assignment for one of Australia's largest venture capitalist companies, managing one of the problem companies in its investee portfolio. The interview concluded with him saying: 'I wish I had one of your plans to help me with this one'.
Actual earnings before interest and tax exceeded projections by over half a million dollars and enabled Elders to recoup over $1.3 million dollars of the debt owed by Wirrilla. Because of the nature of the asparagus season, most of the money flowing from this successful operation had been received and banked by early January, 1993. In this month, as soon as the results of the season were known, on instructions from Elders, the author commenced work on the second edition of the Wirrilla business plan with a view to having it ready to put to the market place after February the fifth.

The fifth of February 1993 is the concluding and conclusive date in the Wirrilla saga. It was concluding because, once the property was back in David Power's hands, all access to further information ceased. It was conclusive because it saw the realisation of a market price for the business which demonstrated the efficacy of the EBP paradigm application.\textsuperscript{19} It was the deadline given to David Power and his consortium of interests by the Elders board.

While Mr Harrison had been running Wirrilla, David Power, as already mentioned, had been using the business plan in an attempt to raise funds to buy back the farm he had lost to Elders. By early January 1993, Power had obtained contingency agreements for substantial provision of funds from both the Commonwealth Development Bank (a Federal Government preferential loan instrumentality with a brief analogous in many ways to the SBIC Program in the United States) and the Commonwealth Bank (one of Australia's 'big four' trading banks and not directly related in any way to the Commonwealth Development Bank). It was these tangible expressions of interest (which directly cited arguments in the Wirrilla business plan as grounds for their willingness to provide funds) which induced the Elders' board to offer David Power one last, exclusive chance to buy back his farm. The board deemed that it would regard its recoupments from the season to be worth $1.5 million dollars of a total desired price of $6,250,000. After the coming and passing of two previous deadlines, they gave David Power until the close of business on Friday, February the fifth to produce the difference: $4,750,000. To make a long story short, at the offices of Elders' solicitors, in Sydney at 9.45 p.m. (technically beyond the deadline), Power succeeded in tabling a combination of over ten cheques in what Robert Mittag (acting for Elders) recalls as:

\begin{footnote}{Section 7.3.4, below, will use the results of the Wirrilla case to develop some generalisable analytical concepts concerning the value which can be added to a distressed business by application of the enhanced EBP paradigm.}
Using the business plan as his major fundraising tool, David Power achieved the required target of $4,750,000 in the following way:

- $2,000,000 in mortgage-secured loans from the Commonwealth Development Bank.
- $1,500,000 in performance-linked redeemable preference shares from an investor group associated with the company which operated the mineral extraction lease on the Wirrilla property.
- $1,000,000 in mortgage-secured loans from the Commonwealth Bank.
- $250,000 from various individuals, loosely describable as 'friends and relatives.'

The melodramatic nature of the settlement can be gauged by the arrival of the final cheque - for less than one thousand dollars. After a frantic telephone call, the cheque arrived, by taxi, just before Elders' solicitors were about to abandon proceedings.

Why the Elders Board gave Power the exclusive right to buy at precisely the price they set remains a mystery and a matter of bafflement and regret to the author, Mr Harrison and Mr Mittag. All three strongly believed that a price in the vicinity of seven million dollars was achievable\(^\text{20}\) which, when added to the seasonal returns, would have given Elders a total of $8,500,000 - over $2,000,000 better than they received. But the second edition of the Wirrilla business plan (ready, as requested, on February fifth) never had a chance to be put to the market to test this proposition.

In any event, the raw economics - the value added - of what had been achieved was undeniable. In a letter to the author reporting the board's satisfaction and gratitude, Mr Robert Mittag wrote that, due to the application of the author's Entrepreneurial Business Planning methods, Elders had obtained a premium of nearly four million dollars above the fire sale price they had been prepared to accept prior to commissioning the author to apply his EBP techniques.

\(^{20}\) A New Zealand company, in possession of the first edition of the business plan, was virtually begging for the right to conduct a due diligence investigation. Due to Elders' undertaking to give Power exclusivity until February 5, this request was denied.
The Wirrilla case thus affirmed the efficacy of the enhanced EBP paradigm.
NOTE

The pagination of this thesis has been organised so that the pages can be printed double-sided.

As a result, there were blank pages at the end of some chapters, so that the first page of a new chapter always appeared on the page that faced up.

These blank pages are missing from this version of the thesis.

The pages involved are: vi, 32, 128, 302, 326, 224 and 344.
6.3 CASE THREE: THE R&F SERIES OF BUSINESS PLANS

6.3.1 CASE PRESCRIPT: DEFINING CIRCUMSTANCES

- Prologue September 1992 - Richard Power's Problem:
  An Opportunity For Market Leadership Blocked By
  A Debilitating Growth Impediment Factor

In early September, 1992, Richard Power\(^\text{21}\) ushered the author into the board room of Rental and Finance Limited with the words:

'Kevin, we've decided to bite the business plan bullet.'

In many capacities - covering marketing, strategy, organisation and finance - the author had been a consultant to Rental and Finance Limited (R&F) since its dynamic entrepreneurial leader, Richard Power, had founded it in 1985. Starting from quite literally nothing but his good name and sheer financial acumen, Power - after a solid grounding in the mechanics of the Australian finance industry - had built and now headed a specialist financial company which currently controlled over 24 million dollars in funds under management in what was becoming one of the fastest growing and most specialised segments of the industry - Sales Aid Finance. However, the company was now in crisis. Its supply of wholesale funds - never provided at cost-of-funds rates commensurate with its major competitors - was now in danger of drying up altogether.

By September 1992, R&F was a demonstrated entrepreneurial success, had survived, developed and overcome major setbacks which might have destroyed less robust organisations. Every difficult experience had been converted to an advantage in operating efficiency and effectiveness. The company was now poised for major growth in turnover, market share and profitability. But wholesale lenders, in a market of spiralling interest rates and a climate fearing a general credit squeeze, simply did not appreciate the virtues of R&F or the benefits of association with it. The most dreaded threat came from Societe Generale, provider of a $15 million dollar per annum funding facility which it was about to withdraw.

\(^{21}\) It should be noted that there is absolutely no relationship whatsoever between Richard Power, the managing director of R&F and protagonist of this case and David Power, the owner of Wirrilla in the previous case.
The key to the rapid growth which Richard Power foresaw - and the major aim of the business plan he was about to commission - was going to be the ability to obtain an adequate volume of funds at an average cost of funds no higher than 2.82% above the swap rate.\textsuperscript{22} Unfortunately, the wholesale market was currently not prepared to supply funds to the company at either the volume or price the company required.

Richard Power said:

'The most galling thing is to be at a disadvantage relative to many of our competitors because our current cost of funds is higher than is justified by the risk profile of the contracts we write and manage. This is killing us at the very time we could be shooting for market leadership. If only the wholesalers had the least inkling of the nature of what we are doing, they'd help us seize the market share and profit opportunities which I know are there for the taking. But I've talked myself blue in the face to them for seven years and they still think of us as some kind of general broker rather than appreciating us as the industry specialist we really are. So, not only are they not giving us the right rate, they're strangling us on volume.'

There was no doubt that even by finance industry standards, R&F dealt in a complex product. Being a manager of a sales aid finance contract portfolio involved four parties to the creation of each financial instrument and a solid knowledge of financial mathematics to calculate the profit margin. In the hope of securing R&F as a research case, the author had been trying to convince Richard Power for some time that the company could benefit from an Entrepreneurial Business Plan executed according to his developing enhanced EBP paradigm. R&F had operated for seven years without a business plan. The author argued that a well-targeted plan could and should be a major communications device, capable of explaining the company's operations, aspirations and potential to the wholesale lenders who were the prime engines of its destiny.

\textsuperscript{22} That is the swap rate (published in the \textit{Australian Financial Review} for the day of drawdown) appropriate to term and amortization. As a well-developed instrument for creating known income from variable cashflow streams, the swap rate was - and remains - the logical benchmark for R&F wholesale funds supply. Since the most common term for R&F's funded contracts is 36 months, the three-year swap rate is the base starting point for determination of the cost-of-funds rate at which wholesale lenders will supply it with funds to execute its contracts. The fact that the swap rate is quoted daily in the \textit{Australian Financial Review} makes it an established commercial measure of fixed interest rates and an ideal yardstick for cost of investment in securitised Sales Aid Finance contracts.
'OK,' said Power, 'You're on. I've convinced the Board. We'll do the business plan and it has two main objectives: first it has to explain the company's potential to wholesale lenders in order to attract appropriately costed funds and second we need it as a strategic management and forecasting tool for company management.'

The author accepted the brief and commenced work on the first edition of the R&F business plan. The production deadline was December. Its efficacy would be measured in the cost and volume of funds which flowed from the wholesale lenders who were to be its primary audience.

- **Overview Of R&F's Business Environment.**
  Generics Of The Sales Aid Finance Industry.

For equipment vendors, the 'owning' of one's own 'finance division', in the eyes of the customer, is of great assistance to sales staff who can offer a total sales and finance package at point of sale. The phenomenon of a salesperson being able to provide on-the-spot finance - preferably in his or her own company's name - as an alternative means of purchase, gives definition to a distinct industry and market-place: Sales Aid Finance.

Prior to the mid 1980s, sales staff of companies selling equipment to corporate and government buyers tended to provide minimal assistance to the potential purchaser's evaluation and selection of methods of financing the acquisition. It was unusual for equipment sales people (other than in the motor industry or specialist hire-purchase operators) to provide much in the way of financing options beyond reference to a general finance company. Since then, the equipment vending world has become a very different competitive environment thanks to the phenomenon of Sales Aid Finance.²³

In subsequent years, sophisticated equipment vendors have been unwilling to risk jeopardising a precious potential sale by abrogating financing options to third parties. The vendor's prime need is to secure the customer's business by closing the sale. The provision of attractive purchasing options, at point of sale, is a sales weapon which a vendor's professional sales representatives are well-advised to have in their arsenal and know how to

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²³ R&F's corporate brochure (appended to CASE 3 in Volume II) provides an overview of the growth and utility of the Sales Aid Finance Market and R&F's role within it. R&F's sales brochure (appended to CASE 3 in Volume II) explains the benefits of Sales Aid Finance to both equipment vendors and their end user customers.
use. If a cash purchase is causing problems, the salesperson must have alternative leasing and rental options immediately available. At the broadest level, it is this necessity which defines the Sales Aid Finance market.

Despite an urgent need to operate one's own 'finance-provision division', most equipment vendors are ill-prepared to add an in-house finance division and train sales staff in the skills needed to provide rental and leasing options to prospective purchasers. In most cases, they are better off concentrating on the supply and support of their products: 'sticking to the knitting'.

This is where the true, purpose-dedicated, Sales Aid Finance Program Management Company finds its niche. The equipment vendor is in a dilemma: it must offer Sales Aid Finance to be competitive but neither wants to be, nor has the skills and resources to be, a financier. Vendors are not in business to be financiers: they are in business to convert equipment into dollars by selling it. The specialist Sales Aid Finance Program Management Company exists to help vendors to sell: by resolving their 'must have but can't deliver' finance-provision dilemma.

Such a company was Rental & Finance Limited (R&F), a pioneer and significant player in the Australian Sales Aid Finance Industry.

- **Summary Of R&F's Core Financial Product**

Simplifying and summarising to the most basic level, the company created financial contracts (mainly rental) with end users of capital equipment by using wholesaler funds to purchase vendor's equipment and renting that equipment to the end user. R&F earns its primary income from the difference between the wholesale and retail discounted net present value of each contract it writes. Thus the essence of R&F's business is to obtain high volumes of wholesale funds at the lowest cost of funds it can secure and create rental contracts embodying the highest retail interest rates that the industry will bear.

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24 Subsequent sections of the case exposition will provide greater detail on R&F's product mechanics and the fact that it earns secondary (extension rentals) and tertiary (asset sales) income in addition to its primary income (discounted cashflow differential) from each contract that it writes.
Exhibit 6.3-1 presents the basic transaction flow in diagrammatic form and illustrates the central role of the Acceptance Division in the operation of the Sales Aid Finance business cycle.

- **The General SAF Market Opportunity**

(1) **THIRTY PERCENT OF CURRENT MARKET SHARE WAS ABOUT TO BECOME AVAILABLE**

Segmented by type of provider, the Sales Aid Finance (SAF) Market contained four segments: Vendor Financiers (equipment sellers who ran their own finance provision divisions as distinct from sub-contracting them); Wholesalers (large general financiers who had big portfolios in the SAF market simply by dint of having big portfolios in many areas); Program Managers (specialists in the SAF market who provided managed rental and leasing portfolios on behalf of vendors who sub-contracted this function to them) and Brokers (who did a bit of this kind of business because they did a bit of every kind of business on behalf of their clients). The SAF market was about to undergo significant transformation in favour of program managers - the segment of which R&F was the innovative leader. The portfolios of the two biggest wholesalers, ARM. and P.L.A. (see below, exhibit 6.3-3) were for sale. This was indicative of the high likelihood that wholesalers as a competitive category would progressively disappear from the SAF market over the next three to five years. This was because Sales Aid Finance was becoming an increasingly well-defined specialist market demanding levels of specific expertise and refined customer service which wholesale financiers were not equipped to deliver. Simultaneously and for similar reasons, brokers were about to lose a little of their already small market share. Anticipating later details of the case, the likely change in competitive segmentation of the total market - recognised explicitly or implicitly by all market players at the time - is diagrammed in Exhibits 6.3-2 and 6.3-3.

It was reasonable to anticipate that only a small slice of the available 27% to 30%, market share - say, 7% - would go to vendor financiers and the remainder to program managers for the simple reason that most vendors
EXHIBIT 6.3-2
SALES AID FINANCE MARKET SHARES AS AT JUNE 1992

<table>
<thead>
<tr>
<th>SEGMENT</th>
<th>T/Over</th>
<th>Revenue</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>VENDOR FINANCIERS</td>
<td>227.00</td>
<td>18.22</td>
<td>50.9%</td>
</tr>
<tr>
<td>WHOLESALERS</td>
<td>119.00</td>
<td>10.12</td>
<td>26.7%</td>
</tr>
<tr>
<td>PROGRAM MANAGERS</td>
<td>70.00</td>
<td>4.67</td>
<td>15.7%</td>
</tr>
<tr>
<td>BROKERS</td>
<td>30.00</td>
<td>1.65</td>
<td>6.7%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>446.00</strong></td>
<td><strong>34.66</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

CURRENT SALES AID FINANCE MARKET SHARES BY SEGMENT

- VENDOR FINANCIERS: 50%
- WHOLESALERS: 16%
- PROGRAM MANAGERS: 27%
- BROKERS: 7%

EXHIBIT 6.3-3
ANTICIPATED SALES AID FINANCE MARKET SHARES

<table>
<thead>
<tr>
<th>SEGMENT</th>
<th>% Future</th>
<th>% Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>VENDOR FINANCIERS</td>
<td>58%</td>
<td>51%</td>
</tr>
<tr>
<td>PROGRAM MANAGERS</td>
<td>38%</td>
<td>16%</td>
</tr>
<tr>
<td>BROKERS</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100%</strong></td>
<td><strong>73%</strong></td>
</tr>
</tbody>
</table>

FUTURE SALES AID FINANCE MARKET SHARES BY SEGMENT

- VENDOR FINANCIERS: 58%
- PROGRAM MANAGERS: 38%
- BROKERS: 4%
had neither the capacity nor desire to be financiers as well as equipment manufacturers/vendors. Only a few (mostly Japanese and United States) equipment vendors are allied to multi-national consortia of sufficient internal diversity and free cashflow to operate a self-funded finance division. Further, by definition, vendor financiers were limited, in the range of contracts that they could offer, to only those products which they made and/or sold. Program managers had a much wider field and could obtain risk-reducing diversity in their portfolios, unobtainable by vendor financiers. Finally, the essential, self-limiting paradox in vendor finance was that when one 'sells' a product with money one personally lends, one is effectively selling to oneself!

(2) MARKET SIZE HAD POTENTIAL TO DOUBLE OVER THE NEXT FIVE YEARS

Subsequent sections and exhibits will indicate current sales aid finance market shares - without pretending greater precision than the data permit. There was no statistically valid basis for estimating market growth. However, R&F's directors were of the opinion that the mid-1992 SAF market worth in excess of 400 million dollars per annum might grow to become an 800 million dollar industry by the end of the 1997/98 financial year.

Thus, measured by trends in both market growth and market share, the Program Management Segment is the wave of the future. Now is the time to catch that wave.

In the opinion of R&F directors, the profit potential projected in this business plan is both remarkable and achievable, provided an adequate supply of funds costed at an interest rate no greater than 2.82% above the swap rate can be obtained.

- The Three Keys To Seizing The Opportunity

(1) Timing - Strike Immediately
The window of market-share opportunity would not remain open indefinitely. R&F needs the involvement of committed participants immediately.
(2) **Cost And Volume Of Funds Supply**

For the 1993/94 financial year, R&F estimated a need for a minimum volume of $35 million at an average cost no greater than 2.82% above the swap rate.

(3) **The 'Triple-Earn' Multiplier**

Anticipating the evidence and analysis presented in later sections of the case, it could be demonstrated that R&F's outstanding profit potential - once adequate competitive funding was in place - was largely a function of the fact that its rental contracts had the capacity to earn income not once but three times. (See, below, under section 6.3.2, the presentation of 'Product Extensions And Product Range').

This meant that a relatively modest growth in primary gross revenue ($1 million to $1.4 million over the five years of projections) was expanded to a dramatic increase in total gross revenue ($7.5 million to $10.4 million over the five years of projections). This 'triple-earn multiplier' was a unique feature of the Sales Aid Finance Industry which was often hard for the uninitiated to comprehend and believe. The effects of the phenomenon, as projected in the base-case business planning scenario, are illustrated in exhibits 6.3-4 and 6.3-5.

### EXHIBIT 6.3-4

**PRIMARY GROSS REVENUE FORECASTS**

**PROJECTED TOTAL PRIMARY REVENUE (5 YR PERIOD).**

**IN AUSTRALIAN DOLLARS**

<table>
<thead>
<tr>
<th></th>
<th>YEAR ONE</th>
<th>YEAR TWO</th>
<th>YEAR THREE</th>
<th>YEAR FOUR</th>
<th>YEAR FIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1993/94</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Primary Rental Income</strong></td>
<td>451,308</td>
<td>473,873</td>
<td>473,873</td>
<td>450,180</td>
<td>450,180</td>
</tr>
<tr>
<td><strong>Primary T.C. Income</strong></td>
<td>180,523</td>
<td>216,628</td>
<td>281,616</td>
<td>380,182</td>
<td>532,255</td>
</tr>
<tr>
<td><strong>Lease Income</strong></td>
<td>393,968</td>
<td>413,666</td>
<td>434,350</td>
<td>456,067</td>
<td>478,870</td>
</tr>
<tr>
<td><strong>Total Primary Revenue</strong></td>
<td>1,025,799</td>
<td>1,104,167</td>
<td>1,189,839</td>
<td>1,286,429</td>
<td>1,461,365</td>
</tr>
</tbody>
</table>

Note "T.C." = "Transaction Costs", a form of financing which will be described shortly.

### EXHIBIT 6.3-5

**TOTAL GROSS REVENUE FORECASTS**

**SHOWING THE POWER OF THE 'TRIPLE-EARN' MULTIPLIER**

<table>
<thead>
<tr>
<th></th>
<th>YEAR ONE</th>
<th>YEAR TWO</th>
<th>YEAR THREE</th>
<th>YEAR FOUR</th>
<th>YEAR FIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1993/94</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Rental</strong></td>
<td>5,520,111</td>
<td>5,503,123</td>
<td>5,420,130</td>
<td>5,070,279</td>
<td>4,991,436</td>
</tr>
<tr>
<td><strong>Trans. Cost</strong></td>
<td>1,677,508</td>
<td>2,013,010</td>
<td>2,616,913</td>
<td>3,552,833</td>
<td>4,945,966</td>
</tr>
<tr>
<td><strong>Leasing</strong></td>
<td>393,968</td>
<td>413,666</td>
<td>434,350</td>
<td>456,067</td>
<td>478,870</td>
</tr>
<tr>
<td><strong>Underwriting</strong></td>
<td>151,339</td>
<td>67,143</td>
<td>17,134</td>
<td>1,798</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>7,342,926</td>
<td>7,996,943</td>
<td>8,485,526</td>
<td>9,060,977</td>
<td>10,416,272</td>
</tr>
</tbody>
</table>
• Organisation, Administration And Key Operations

At Time Of Commissioning The Business Plan

The company had three directors: Richard Power, Robin Page and John Patterson. At the head office in Melbourne, Mr Power was supported by a keen head office staff, several of whom have been with the company since its inception. In fact, staff continuity has been a strong feature of the company's development. The company is structured with Sales, Acceptance, Credit Control, Assets Management and Administration divisions. This infra-structure is capable of rapid and major expansion. Mr Page is the Company's secretary and public officer and assists in its management and, particularly, administration. Mr Patterson, a Partner in the Melbourne legal firm, Cornwall Stodart, has been the Company's Solicitor since its incorporation and has an intimate knowledge of its structure and operation. He brings an independent voice to the board. R&F had offices in Melbourne (head office), Sydney, Brisbane, Adelaide, Auckland (New Zealand) and representatives in Canberra and Perth.

The contemporary organisation chart (in which initials represent the names of staff members) is presented as exhibit 6.3-6.

• Information Management Credit Assessment And Security

All finance operations were computerised using an on-line, real-time system running a dedicated finance company software package. This system maintained the records of all contracts and generated all invoices. Terminals were provided for the finance operations staff and the system provided a fully integrated general ledger, lending, bank reconciliation and word processing facilities. Budgeting, cashflow forecasting and management accounting were also computerised. The strongest feature of the system was that it provided not weekly or monthly, but daily scrutiny of cashflow. By eleven a.m. each day, R&F had complete knowledge of its detailed cash position. The company's cashflow monitoring and control procedures were of the highest international standards.

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25 Rental & Finance Ltd was operated so as not to trade in its own right, but to act in the capacity as trustee for a trading trust, The Rental and Finance Unit Trust, whose shares and units were held by the interests of Messrs Power and Page. For ease of exposition in this business plan, all projections were treated as though the 'two' R&F's were one corporate trading entity, paying tax at the corporate tax rate and deploying fully franked dividends.
In the management of its various portfolios, R&F set a high standard in the vetting of borrowers. To assist in achieving this, specialist acceptance staff used the Credit Reference Association (CRA) credit reference facility through on-line computer access. Borrowers who did not meet stringent criteria were rejected. Where considered appropriate, contracts were supported by secured guarantees of directors of the purchasing end user. Other security measures, as appropriate, included security over the goods under finance and additional security over real estate or cash. Such measures were rarely required as the majority of end user customers were of extremely high credit rating, as subsequent sections will illustrate. Control is tight and the arrears position is consistently low. At June, 1995 arrears were running at less than two tenths of one percent of gross receivables. Procedures for repossession, where necessary, were streamlined and there were arrangements in place with suppliers and others to dispose of any repossessed equipment as well as equipment returned at the termination of rental contracts.
• Brief History Of Rental & Finance Limited

THE ORIGINAL BUSINESS OPPORTUNITY

In 1984, after many years experience as a finance broker, Richard Power identified the 'rental-as-sales-aid' concept as a major business opportunity flowing from the then new Australian Accounting Standard, AAS17, which required finance leases - as distinct from operating leases (which will be referred to as 'rentals' throughout this case study) - to be capitalised and the lease liability recognised. This new requirement did not suit all businesses, many of whom preferred to continue to treat financing of their equipment needs as an 'off balance sheet' cash flow expense.

So, Mr. Power incorporated R&F, secured Canon Australia Pty Ltd as a client and set up a Sales Aid Finance Facility in the form of a Rental Program for use by Canon sales staff. The initial, pioneering program had the five major distinguishing attributes which have since defined all dedicated Sales Aid Finance programs.

1. It was off Canon's and the customer's balance sheets.
2. It provided flexible purchasing options to Canon's customers.
3. It had straightforward documentation and procedures - easy to use by Canon's sales staff.26
4. It enabled the Canon sales staff to present both the sales and finance package in Canon's own corporate name - a major benefit to the company's corporate image and the perceived professionalism of its sales operation.
5. It enabled Canon to offer an "in-house" finance program without needing to establish, staff and manage its own finance division.

To allow a lender to have confidence in the management of the new R&F venture, other specialists were invited to participate. They became shareholders and directors and Canon gave permission to use the business name 'Canon Rentals'. Comfortable with the concept, the management structure, and Canon's product support, financial wholesaler, Societe Generale Australia Limited, granted an initial $2 million cash advance to fund rental contracts and a successful history began.

26 An example of an R&F rental contract is appended to the business plan (see CASE 3 of Volume II).
COMPANY GROWTH

Since its inception, R&F grew strongly and used the bulk of cash flow generated to fund growth. Following the success of the Canon rental program, other suppliers were approached and commenced using similar rental sales-aid packages. As a consequence, additional lines of finance were required. Lloyds Bank Ltd and Indosuez Australia Ltd both extended cash advance facilities and EIL Finance Ltd entered into a non-disclosed reversionary right discounting facility. Over the eight years to the writing of the first R&F business plan, a variety of individual trading relationships were formed with a number of equipment vendors ('contract initiators') and financiers ('contract funds suppliers'). Each relationship was matched to the specific requirements of the vendor and/or funds supplier. In most of these arrangements, the vendor's name was incorporated in the financial documentation used at point of sale. Thus, for instance, when Company-A sold its equipment, financed by a rental program, the equipment purchaser struck the rental agreement, at point of sale, with 'Company-A Finance' - perceived (by Company-A's customers) as a finance-providing division of the vendor company but actually an entity managed and administered by R&F.

By the time of writing the first Business Plan (December 1992), R&F was providing Sales Aid Finance facilities to more than thirty companies ranging from large, integrated multi-national manufacturer/vendors to smaller entities such as local equipment dealers and agents. In addition, R&F products and services were utilised by a number of the leading finance broking houses in most states of Australia.

Rental and Finance had been very successful in attracting good quality in all three parties which comprised its market place:

- equipment vendors (suppliers of equipment on which the financial contracts were based - e.g. a rental contract for a Toshiba photocopier machine);

- end-users (contract purchasers - e.g. BHP strikes a rental agreement for the Toshiba equipment) and

- funds suppliers (wholesale lenders of the funds which allow R&F to purchase the equipment from the vendor for use by the end-user).
MAJOR MILESTONES AND BUSINESS LESSONS

Various occurrences over the years dramatically affected performance and many lessons were learned. The major instructive events were as follows.

1988 saw the collapse of Impact Systems Limited\textsuperscript{27}, a company to which Rental and Finance had a $280,000 exposure. Most equipment was found to be missing and was subsequently written off to a value of $254,000. As a result, R&F learned invaluable lessons in credit assessment, acceptance techniques, credit control and the risks of over-exposure to individual customers.

1989 saw the decision by Canon Australia Pty Ltd to seek R&F's assistance in setting up its own sales aid finance division. This removed nearly $500,000 per month in business which was rapidly replaced through marketing to, and securing, a number of vendors. The impact was strongly felt but demonstrated R&F's resilience and ensured that, through development of a diversity of vendor programs, the company would never again be unduly dependent on one large client. Also during 1989, the company secured an important line of funding, through K.E. Financial Corporation Limited, which was still in use in December 1989.

1990 In January 1990, EIL Finance Ltd was forced by its bankers to stop lending. This had significant adverse effects on R&F's trading because, at that stage, EIL was the only source of funds for non-corporate (i.e. small, private equity) business. This was rectified with the establishment of facilities with Royal Australia Finance Ltd and private sources through the innovation of an R&F-invented financial instrument - Guaranteed Finance Contracts.\textsuperscript{28} 1990 was the first year in which provisions for bad debts became necessary. This was brought about by the combination of having conducted business with EIL on a full recourse basis and the severe recession impacting adversely on non-corporate customers. These problems were exacerbated because, at that stage of R&F's evolution, EIL

\textsuperscript{27} The collapse was a major cause celebre in Australia at the time. Impact Systems public image was that of the successful, well-managed, high growth, new technology venture which might serve as an exemplar of Australia's export-oriented future. In fact, events proved that Impact Systems might serve as an exemplar of what not to do to manage high growth in a new venture.

\textsuperscript{28} The author provided advisory work in both financial modelling and marketing which led to the successful creation and implementation of this financial innovation (the brain-child of managing director, Richard Power). It was this successful experience which led Mr. Power to select the author as designer and writer of the first and subsequent R&F business plans.
retained control of a most vital function: credit assessment. As a result, key balance sheet items were substantially marked down to reflect current market values and R&F established its own Acceptance Division, beholden to no one but itself.

In 1991, the long awaited benefits to R&F of its faith in well-packaged and well-managed rental products - with the capacity to earn not once, but three times\(^{29}\) - really began to show. Extension rentals and asset sales - which represent pure profit - were increasing steadily. These now gave Rental and Finance Limited an extraordinarily strong earnings base for many years to come, providing the basis for sustained and strong growth.

The first half of 1992 had seen the impediment to growth lamented by Mr Power in the opening section of this case. Quite simply, wholesale lenders did not understand the company, the nature of its business or the opportunity it represented to them. The cost of funds was too high to generate profitable contracts at competitive retail rates and, even at that high cost, supply was drying up.

Quite simply, the company was facing a crisis that threatened not only its growth, but its survival.

- **Financial Performance Summary**

Exhibits 6.3-7 and 6.3-8 graph the growth in the company's funds under management and annual revenue to June 1992.

- **Market Share Data As At December 1992 And Its Implications**

The following three tables, exhibits 6.3-9 to 6.3-11 provide contemporary estimates of the market share status of all clearly defined SAF competitors prevailing at June 30, 1992. All turnover, profit and asset figures are in millions of dollars.

\(^{29}\) The phenomenon of the 'triple-earn multiplier' will be discussed in some detail, below.
EXHIBIT 6.3-7
R&F'S GROWTH IN FUNDS UNDER MANAGEMENT TO JUNE 1992

<table>
<thead>
<tr>
<th>Year</th>
<th>Funds Under Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>0</td>
</tr>
<tr>
<td>1986</td>
<td>2,500,000</td>
</tr>
<tr>
<td>1987</td>
<td>5,000,000</td>
</tr>
<tr>
<td>1988</td>
<td>10,300,000</td>
</tr>
<tr>
<td>1989</td>
<td>13,100,000</td>
</tr>
<tr>
<td>1990</td>
<td>18,000,000</td>
</tr>
<tr>
<td>1991</td>
<td>21,200,000</td>
</tr>
<tr>
<td>1992</td>
<td>18,700,000</td>
</tr>
<tr>
<td>1992 (Oct)</td>
<td>24,000,000</td>
</tr>
</tbody>
</table>

EXHIBIT 6.3-8
R&F'S GROWTH IN REVENUE TO JUNE 1992

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary &amp; Secondary (Asset Sales)</th>
<th>Tertiary</th>
<th>Other Income</th>
<th>Total (Gross)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>8,634</td>
<td>0</td>
<td>324</td>
<td>8,958</td>
</tr>
<tr>
<td>1986</td>
<td>290,506</td>
<td>0</td>
<td>3,544</td>
<td>234,050</td>
</tr>
<tr>
<td>1987</td>
<td>677,187</td>
<td>0</td>
<td>35,806</td>
<td>712,993</td>
</tr>
<tr>
<td>1988</td>
<td>1,210,587</td>
<td>21,028</td>
<td>209,139</td>
<td>1,440,754</td>
</tr>
<tr>
<td>1989</td>
<td>1,205,748</td>
<td>76,435</td>
<td>409,712</td>
<td>1,691,895</td>
</tr>
<tr>
<td>1990</td>
<td>1,551,510</td>
<td>180,878</td>
<td>282,097</td>
<td>2,014,485</td>
</tr>
<tr>
<td>1991</td>
<td>1,836,892</td>
<td>227,365</td>
<td>231,598</td>
<td>2,295,858</td>
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<tr>
<td>1992</td>
<td>2,196,141</td>
<td>210,390</td>
<td>189,383</td>
<td>2,515,914</td>
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</table>
EXHIBIT 6.3-9
SALES AID FINANCE MARKET AS AT JUNE 30, 1992
COMPETITOR PERFORMANCE PROFILE (SOURCE: ESTIMATES BY R. POWER) 30

<table>
<thead>
<tr>
<th>COMPETITOR</th>
<th>N.C.R.</th>
<th>F.U.M</th>
<th>T/O</th>
<th>Margin</th>
<th>G/Profit</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>WHOLESALERS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.R.M</td>
<td>180.00</td>
<td>54.00</td>
<td>5.0%</td>
<td>8.5%</td>
<td>4.59</td>
<td></td>
</tr>
<tr>
<td>P.L.A</td>
<td>75.00</td>
<td>40.00</td>
<td>5.0%</td>
<td>8.5%</td>
<td>3.40</td>
<td></td>
</tr>
<tr>
<td>Hunter MMI</td>
<td>70.00</td>
<td>25.00</td>
<td>5.0%</td>
<td>8.5%</td>
<td>2.13</td>
<td></td>
</tr>
<tr>
<td>Sub-Total</td>
<td>325.00</td>
<td>119.00</td>
<td></td>
<td>8.5%</td>
<td>10.12</td>
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<table>
<thead>
<tr>
<th>VENDOR FINANCIERS</th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Xerox</td>
<td>275.00</td>
<td>82.00</td>
<td>3.0%</td>
<td>6.0%</td>
<td>4.92</td>
<td></td>
</tr>
<tr>
<td>Nashua</td>
<td>20.00</td>
<td>20.00</td>
<td>2.0%</td>
<td>4.0%</td>
<td>1.40</td>
<td></td>
</tr>
<tr>
<td>Sharp</td>
<td>20.00</td>
<td>20.00</td>
<td>2.0%</td>
<td>4.0%</td>
<td>1.40</td>
<td></td>
</tr>
<tr>
<td>Canon</td>
<td>90.00</td>
<td>45.00</td>
<td>6.0%</td>
<td>10.0%</td>
<td>4.50</td>
<td></td>
</tr>
<tr>
<td>P.B. Credits</td>
<td>20.00</td>
<td>20.00</td>
<td>6.0%</td>
<td>10.0%</td>
<td>2.00</td>
<td></td>
</tr>
<tr>
<td>AT&amp;T/NEC</td>
<td>100.00</td>
<td>40.00</td>
<td>6.0%</td>
<td>10.0%</td>
<td>4.00</td>
<td></td>
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<tr>
<td>Sub-Total</td>
<td>525.00</td>
<td>227.00</td>
<td></td>
<td>8.0%</td>
<td>18.22</td>
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<table>
<thead>
<tr>
<th>PROGRAM MANAGERS</th>
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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>R &amp; F</td>
<td>18.00</td>
<td>22.00</td>
<td>3.0%</td>
<td>4.5%</td>
<td>0.99</td>
<td></td>
</tr>
<tr>
<td>BCF</td>
<td>25.00</td>
<td>18.00</td>
<td>5.0%</td>
<td>8.0%</td>
<td>1.44</td>
<td></td>
</tr>
<tr>
<td>Madigan</td>
<td>15.00</td>
<td>14.00</td>
<td>5.0%</td>
<td>8.0%</td>
<td>1.12</td>
<td></td>
</tr>
<tr>
<td>Goodsell</td>
<td>10.00</td>
<td>6.00</td>
<td>4.0%</td>
<td>7.0%</td>
<td>0.42</td>
<td></td>
</tr>
<tr>
<td>A.C.F.</td>
<td>5.00</td>
<td>10.00</td>
<td>4.0%</td>
<td>7.0%</td>
<td>0.70</td>
<td></td>
</tr>
<tr>
<td>Sub-Total</td>
<td>73.00</td>
<td>70.00</td>
<td></td>
<td>6.7%</td>
<td>4.67</td>
<td></td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>BROKERS</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Centrelease</td>
<td>20.00</td>
<td>5.5%</td>
<td></td>
<td></td>
<td>1.10</td>
<td></td>
</tr>
<tr>
<td>Corporate Acceptance</td>
<td>10.00</td>
<td>5.5%</td>
<td></td>
<td></td>
<td>0.55</td>
<td></td>
</tr>
<tr>
<td>Sub-Total</td>
<td>30.00</td>
<td>5.5%</td>
<td></td>
<td></td>
<td>1.65</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ALL COMPETITORS</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Total</td>
<td>446.00</td>
<td></td>
<td></td>
<td></td>
<td>34.66</td>
<td></td>
</tr>
</tbody>
</table>

"N.C.R." = "NET CONTRACTED RECEIVABLES"; "F.U.M." = "FUNDS UNDER MANAGEMENT";
"T/O" = "TURNOVER" (i.e. VALUE OF PRIMARY SALES FUNDED)

30 Some readers of the business plan may be inclined to scepticism when they observe that the source of these estimates was the managing director of R&F. Such readers are again referred to section 4.1.2, of the plan where the difficulties of quantification and the non-availability of independent, objective market data were discussed. To allay scepticism, R&F made two observations. First, Mr R. Power, managing director of R&F, having spent the last eight years as a pioneer of the sales aid finance industry, has as much knowledge of the market as anyone in it. Second, for the mathematically inclined market researcher, it may be of some interest to know that the market shares (by turnover) estimated by Mr Power have been submitted to what is known as the 'Bak-Chen Test' and found to have an almost exact correlation with the predictions of market share (for a market at this stage of its evolution) provided by chaos theory. See, Bak, P. and Chen, K., 'Self-Organised Criticality', Scientific American, January 1991. Finally, ALEA statistics, cited in plan section 4.1.1, above, estimate operating leases (i.e. rental component of the SAF market plus other operating lease providers) as 12% of the annual $4,500 million equipment leasing industry - or $450 million. This comports well with the $446 million which Power attributes to the SAF competitors.
EXHIBIT 6.3-10
JUNE 1992 MARKET RANKING OF SALES AID FINANCE COMPETITORS
BY PRIMARY RENTAL AND LEASE CONTRACT TURNOVER

<table>
<thead>
<tr>
<th>Rank</th>
<th>COMPETITOR</th>
<th>T/Over</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Xerox</td>
<td>82.00</td>
<td>18.39%</td>
</tr>
<tr>
<td>2</td>
<td>A.R.M</td>
<td>54.00</td>
<td>12.11%</td>
</tr>
<tr>
<td>3</td>
<td>Canon</td>
<td>45.00</td>
<td>10.09%</td>
</tr>
<tr>
<td>4</td>
<td>P.L.A</td>
<td>40.00</td>
<td>8.97%</td>
</tr>
<tr>
<td>5</td>
<td>AT&amp;T/NEC</td>
<td>40.00</td>
<td>8.97%</td>
</tr>
<tr>
<td>6</td>
<td>Hunter MMI</td>
<td>25.00</td>
<td>5.61%</td>
</tr>
<tr>
<td>7</td>
<td>R &amp; F</td>
<td>22.00</td>
<td>4.93%</td>
</tr>
<tr>
<td>8</td>
<td>Nashua</td>
<td>20.00</td>
<td>4.48%</td>
</tr>
<tr>
<td>9</td>
<td>Sharp</td>
<td>20.00</td>
<td>4.48%</td>
</tr>
<tr>
<td>10</td>
<td>P.B. Credits</td>
<td>20.00</td>
<td>4.48%</td>
</tr>
<tr>
<td>11</td>
<td>Centrelease</td>
<td>20.00</td>
<td>4.48%</td>
</tr>
<tr>
<td>12</td>
<td>BCF</td>
<td>18.00</td>
<td>4.04%</td>
</tr>
<tr>
<td>13</td>
<td>Madigan</td>
<td>14.00</td>
<td>3.14%</td>
</tr>
<tr>
<td>14</td>
<td>A.C.F.</td>
<td>10.00</td>
<td>2.24%</td>
</tr>
<tr>
<td>15</td>
<td>Corporate Acceptance</td>
<td>10.00</td>
<td>2.24%</td>
</tr>
<tr>
<td>16</td>
<td>Goodall</td>
<td>6.00</td>
<td>1.35%</td>
</tr>
</tbody>
</table>

TOTAL 446.00 100.00%

(SOURCE: ESTIMATES BY R. POWER)

EXHIBIT 6.3-11
JUNE 1992 MARKET RANKING OF SALES AID FINANCE COMPETITORS
BY PRIMARY RENTAL AND LEASE GROSS REVENUE

<table>
<thead>
<tr>
<th>Rank</th>
<th>COMPETITOR</th>
<th>Revenue</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Xerox</td>
<td>4.92</td>
<td>14.20%</td>
</tr>
<tr>
<td>2</td>
<td>A.R.M</td>
<td>4.59</td>
<td>13.24%</td>
</tr>
<tr>
<td>3</td>
<td>Canon</td>
<td>4.50</td>
<td>12.99%</td>
</tr>
<tr>
<td>4</td>
<td>AT&amp;T/NEC</td>
<td>4.00</td>
<td>11.54%</td>
</tr>
<tr>
<td>5</td>
<td>P.L.A</td>
<td>3.40</td>
<td>9.81%</td>
</tr>
<tr>
<td>6</td>
<td>Hunter MMI</td>
<td>2.13</td>
<td>6.13%</td>
</tr>
<tr>
<td>7</td>
<td>P.B. Credits</td>
<td>2.00</td>
<td>5.77%</td>
</tr>
<tr>
<td>8</td>
<td>BCF</td>
<td>1.44</td>
<td>4.16%</td>
</tr>
<tr>
<td>9</td>
<td>Nashua</td>
<td>1.40</td>
<td>4.04%</td>
</tr>
<tr>
<td>10</td>
<td>Sharp</td>
<td>1.40</td>
<td>4.04%</td>
</tr>
<tr>
<td>11</td>
<td>Madigan</td>
<td>1.12</td>
<td>3.23%</td>
</tr>
<tr>
<td>12</td>
<td>Centrelease</td>
<td>1.10</td>
<td>3.17%</td>
</tr>
<tr>
<td>13</td>
<td>R &amp; F</td>
<td>0.99</td>
<td>2.86%</td>
</tr>
<tr>
<td>14</td>
<td>A.C.F.</td>
<td>0.70</td>
<td>2.02%</td>
</tr>
<tr>
<td>15</td>
<td>Corporate Acceptance</td>
<td>0.55</td>
<td>1.59%</td>
</tr>
<tr>
<td>16</td>
<td>Goodall</td>
<td>0.42</td>
<td>1.21%</td>
</tr>
</tbody>
</table>

TOTAL 34.66 100.00%

(SOURCE: ESTIMATES BY R. POWER)
A summary of R&F's market plight is furnished by comparing its competitive ranking by turnover (exhibit 6.3-10) with its competitive ranking by profit (exhibit 6.3-11). The fact that it was as high as seventh ranking competitor in its industry by volume of annual, new-business turnover represented a remarkable achievement for an entrepreneurial firm in such multi-national company. The fact that it was as low as thirteenth ranking competitor in its industry by volume of gross income on that business represented chronic testimony of the degree to which it had and was suffering from too high a cost of funds.

In R&F's case, the industry's lack of accuracy in generic market figures and precise data on market shares was compensated by detailed, specific knowledge of the volume of business it was possible to conduct given an adequate supply of funds. In short, at time of writing the business plan (September, 1992), R&F did not need more detail on the status and growth potential of the whole market (and the market share movements of R&F's competitors) in order to determine its own growth forecasts. Demand was not R&F's problem, supply was: supply of funds at a cost which would permit competitive pricing to end users.

Assuming those funds were attainable, R&F could forecast with confidence and accuracy from actual negotiations with current and potential clients whose demand for R&F's services exceeded the company's current ability to supply their requirements. These credible, detailed sales forecasts, based on the volume of business R&F was being asked to transact by vendors, were presented in sections 7.1 and 7.2 of the R&F business plan (see CASE 3 of Volume II).

- The Key Growth Issue And An Acid Test Of The Enhanced EBP Paradigm

The key to R&F's destiny would be the availability of an adequate volume of funds supplied at a sufficiently competitive rate. The author's Entrepreneurial Business Plan, strove to keep its focus upon convincing prospective lenders that the maximum acceptable and achievable cost of funds interest rate should be 2.82% above the swap rate. The benefits to lenders who supplied the company at this rate would be a competitive rate of return for the level of risk involved. Current money market rates were around 5%. Funds invested in R&F contracts could be expected to earn between 9.92% to 11.64% with the capital returning via monthly
repayments embodied in sales aid finance contracts. Money provided to R&F as funds to finance its primary contracts would be secured by the contract documentation, a lien over the equipment and, where necessary, directors' guarantees from end-user customers.

Throughout its life to date, R&F had been limited by supply rather than demand: by the availability of adequate, competitively-priced funds rather than by the opportunities to place funds, through vendors, to end-users with acceptable risk profiles. Despite its proven ability to find and service the needs of vendors in all areas of commerce and industry, R&F has been restricted by its own small capital base and its reliance on wholesale funders who demanded risk premiums in excess of the true risk profile represented by R&F's portfolio of contracted end-user customers. The ensuing narrower margins, when competing with the major established finance houses, were a continuing brake on R&F's potential to achieve growth and market share. They represented a clear-cut growth impediment factor as defined by the author's enhanced Entrepreneurial Business Planning paradigm as developed in chapter four of this thesis.

The acid test of the EBP paradigm in this case would be:

'Can the business plan generate more funds at a lower cost?'

6.3.2 SUMMARY OF THE FIRST R&F BUSINESS PLAN

- One Page Summary And Index To The Plan

Exhibit 6.3-12, overleaf, is a table containing a one-page summary of the R&F business plan and an indexed reference to the sections of the plan which expand upon each of the summary points.

The full version of the plan itself is bound as CASE 3 in Volume II, attached to this dissertation and archived in the thesis section of Swinburne University of Technology's library. The summary clearly shows that the plan has been constructed in accordance with all the principles contained in the author's enhanced paradigm of Entrepreneurial Business Planning (developed in chapter 4, above).
### SUMMARY

<table>
<thead>
<tr>
<th>ITEM</th>
</tr>
</thead>
</table>

#### OUTSTANDING PARTICIPATION OPPORTUNITIES ARE OFFERED

R&F is currently poised for dramatic growth in both turnover and profitability. 30% market share is currently available due to an industry shakeout. R&F's profitability is a function of the 'triple earn multiplier'. Contracts earn 3 incomes: primary (discounted interest); secondary (extension rentals) and tertiary (asset sales).

The overwhelming strategic imperative and key to seizing the opportunity is the ability to lower the average cost of funds to a maximum of 2.82% above the swap rate.

To seize its market opportunity and achieve the goals and objectives of the plan, R&F requires a minimum funds supply (at no greater cost than 2.82% above the swap rate) of $35 million in the 1993/94 financial year rising to $80 million in 1997/98.

This provides an opportunity for lenders to obtain this rate from a diversified range of high quality securitized contracts providing a fixed income stream from a portfolio of equipment end users in the government, major corporate and commercial sectors.

Any party guaranteeing the requisite cost and volume of funds will be given the opportunity to purchase a 40% equity share of the business for $5 million. Projections show this investment could provide 21.79% compound internal rate of return and have a payback period of two years.

#### A STRATEGY HAS BEEN DEVELOPED WHICH:

- is based on a proven four-point philosophy, a single goal and six key objectives;
- demonstrates that the required cost of funds and retail margins are achievable;
- is incorporated in a comprehensive but adaptable five-year business plan.
- The plan is detailed in a financial model which can be used both as an on-going management tool and as a means for performing sensitivity analysis in response to the particular questions and requirements of individual prospective participants.
- The plan is based on perceiving R&F as a strategically positioned, value-added service provider, rather than as a mere 'financial intermediary'.

#### EVIDENCE OF THE VALUE OF THE BUSINESS AND APPROPRIATENESS OF THE SUGGESTED STRATEGY IS FURNISHED BY:

- a thorough marketing analysis;
- a thorough organisational, operational and management analysis;
- a thorough strategic analysis;
- a full suite of detailed, annotated proforma financial statements for the next 5 years;
- a separate volume containing appendices relevant to the due diligence process;
- access to further documentation and material upon request.

#### DETAILED DESCRIPTIVE MATERIAL

- A comprehensive description of the background to the investment opportunity.
- Over eighty tables and figures providing succinct encapsulation of information.
As was narrated above (section 6.3.1) and will be expanded below (section 6.3.3), the central focus of the plan was an attempt to convey an operational understanding of the business to a key target audience, wholesale funds suppliers, to induce them to provide loan funds to the business. However, the plan also contained a conditional equity offer. Any party guaranteeing the requisite volume of funds ($35 million in wholesale funds to be supplied at a cost no greater than 2.82% above the swap rate) was offered the opportunity to purchase 40% of the equity of the business for $5 million. A scenario was presented which argued that this investment could yield over 21% annual internal rate of return and have a payback period of two years. In the plan, the directors made it clear that they would prefer not to sell any equity, but would do so as a means of securing the affordable supply of funds which was so vital to the company's future. The equity offer was testament of how serious the shortage of funds supply had become.

- **Summary Financial Projections Of The Base Case Scenario**

The business plan contained very detailed financial projections embodied in a flexible financial model built according to the prescriptions of the enhanced EBP paradigm.

Exhibits 6.3-13 to 6.3-15 reproduce the five-yearly pro formas and exhibits 6.3-16 to 6.3-18 summarise the most critical features of their projections in graphical form. Exhibit 6.3-19 presents the cumulative pattern of growth - in the form of funds under management - resulting from the projections. The growth potential demonstrated by the business plan can be further summarised by highlighting the major features of the financial projections for year 5 (the 1997/98 financial year):

- Gross income was projected to be $10.4 million.
- After tax profit was projected to be $4.7 million.
- Net trading cashflow was projected to be $7 million.
- Fully franked dividends was projected to be $3.8 million.
- Net worth (after total, fully-franked dividend payouts, over the five year period, had exceeded $14.5) was projected to be over $6 million.
- Company valuation (at a multiple of 3 times earnings before interest and tax) was projected to be over $22 million.
- Funds under management was projected to be nearly $80 million.
# Exhibit 6.3-13

## The December 1992 R&F Business Plan

### 5-Year Income Statement Projections

**Rental & Finance Limited**

### Projected Income Statements

The 5 Years from Jul 1 1993 to Jun 30 1998

In Australian Dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>Year One</th>
<th>Year Two</th>
<th>Year Three</th>
<th>Year Four</th>
<th>Year Five</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Rental Income</td>
<td>5,320,111</td>
<td>5,503,123</td>
<td>5,420,130</td>
<td>5,070,279</td>
<td>4,991,436</td>
</tr>
<tr>
<td>Total T.C. Income</td>
<td>1,677,508</td>
<td>2,013,010</td>
<td>2,616,913</td>
<td>3,532,833</td>
<td>4,945,966</td>
</tr>
<tr>
<td>Total Lease Income</td>
<td>393,968</td>
<td>413,666</td>
<td>434,350</td>
<td>456,067</td>
<td>478,870</td>
</tr>
<tr>
<td>Total Other Income</td>
<td>151,339</td>
<td>67,143</td>
<td>17,134</td>
<td>1,798</td>
<td></td>
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<tr>
<td><strong>Gross Income</strong></td>
<td>7,542,926</td>
<td>7,996,943</td>
<td>8,488,526</td>
<td>9,060,977</td>
<td>10,416,272</td>
</tr>
<tr>
<td>Less Transaction Taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>7,542,926</td>
<td>7,996,943</td>
<td>8,488,526</td>
<td>9,060,977</td>
<td>10,416,272</td>
</tr>
</tbody>
</table>

### General Expenses

- Marketing: 700,538
- Administration: 872,210
- Credit Risk Expenses: 200,063
- Depreciation Bus. Equip.: 50,243
- Other: 58,651

**Total Non Int. Exp.**

1,823,054

**EBIT**

5,719,872

**ADD Interest Earned**

93,747

**LESS S/T Interest**

11,953

**LESS L/T Interest**

18,086

**TAXABLE INCOME**

5,783,580

**INCOME TAX**

2,255,596

**PROFIT AFTER TAX**

3,527,984
EXHIBIT 6.3-14
THE DECEMBER 1992 R&F BUSINESS PLAN
5-YEAR CASHFLOW STATEMENT PROJECTIONS

RENTAL & FINANCE LIMITED

PROJECTED CASHFLOW STATEMENTS - FIVE YEARS
THE 5 YEARS from JUL 1 1993 to JUN 30 1998
IN AUSTRALIAN DOLLARS

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## EXHIBIT 6.3-15
THE DECEMBER 1992 R&F BUSINESS PLAN
5-YEAR BALANCE SHEET PROJECTIONS

### RENTAL & FINANCE LIMITED

**PROJECTED BALANCE SHEETS**
THE 5 YEARS ENDING JUNE 30, 1994 to JUNE 30, 19998
IN AUSTRALIAN DOLLARS

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### Exhibit 6.3-16
**Graphed Summary Income Projections**

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### Exhibit 6.3-17
**Graphed Summary Cashflow Projections**

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<td>$5,088,135</td>
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EXHIBIT 6.3-18
GRAPHED SUMMARY BALANCE SHEET PROJECTIONS

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EXHIBIT 6.3-19
GRAPHED SUMMARY FUNDS UNDER MANAGEMENT PROJECTIONS

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<td>YEAR FOUR</td>
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<tr>
<td>YEAR FIVE</td>
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</table>
Arguments Used To Produce And Support The Projections

SPECIFIC APPEAL TO RISK AND RETURN COMPARISONS

R&F's first strategic imperative was to convince one or several funds suppliers interested in achieving a diversified portfolio of securitised contracts providing fixed regular payments to provide a line or lines of funds in the minimum order of $35 million. The key task was to illustrate that the risk/return profile of R&F's contracts was the equal of or superior to that of currently available lending options. The business plan demonstrated that the weighted rating of R&F's portfolio of administered contracts was deserving of at least an AA credit rating. Yet its financial forecasts were based on doing no better than achieving an average cost of wholesale funds at 0.82% higher than the retail rate available at the time to C-rated borrowers. The conservatism of this cost of funds assumption, illustrated in exhibit 6.3-20, was very reassuring to prospective lenders and also whetted their appetites with the ability to earn above-market returns by lending to R&F at the rates which it sought.

EXHIBIT 6.3-20
THE ACHIEVABLE COST OF FUNDS ARGUMENT
COMPARING FIXED INTEREST RATES FOR TERMS OF 36 MONTHS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ROWS: INTEREST RATES (PERCENT)</td>
<td>Swap rate</td>
<td>8.20</td>
<td>8.20 to 8.20</td>
<td>8.20 to 8.20</td>
<td>8.20</td>
</tr>
<tr>
<td>Current Margin Over Swap Rate (%)</td>
<td>0.25</td>
<td>0.50 to 0.75</td>
<td>1.25 to 1.50</td>
<td>2.00</td>
<td>(0.50)</td>
</tr>
<tr>
<td>Current General Lending Rate</td>
<td>8.45</td>
<td>8.70 to 8.95</td>
<td>9.45 to 9.70</td>
<td>10.20</td>
<td>7.70</td>
</tr>
<tr>
<td>R&amp;F'S TARGET RATE (SWAP +2.82 %)</td>
<td>11.02</td>
<td>11.02</td>
<td>11.02</td>
<td>11.02</td>
<td>11.02</td>
</tr>
<tr>
<td>R&amp;F's Ave. Cost Of Funds Target</td>
<td>11.02</td>
<td>11.02</td>
<td>11.02</td>
<td>11.02</td>
<td>11.02</td>
</tr>
<tr>
<td>Funds Provider's Safety Margin</td>
<td>2.57</td>
<td>2.80 to 2.89</td>
<td>3.17 to 3.32</td>
<td>0.82</td>
<td>3.32</td>
</tr>
</tbody>
</table>

OVERVIEW OF ESTIMATION ASSUMPTIONS AND PROCEDURES

Over two hundred detailed subsidiary schedules - all of whose figures were supported by detailed argument and evidence - underpinned an integrated suite of pro forma financial statements for each of the first twelve months (commencing July 1993) and each of the next five years. Exhibit 6.3-21 summarises the major assumptions and methods used to generate the figures in the base case scenario presented in the R&F business plan.
## EXHIBIT 6.3-21
### R&F DECEMBER 1992 BUSINESS PLAN
#### SUMMARY OF ESTIMATION ASSUMPTIONS AND PROCEDURES

<table>
<thead>
<tr>
<th>No.</th>
<th>ITEM</th>
<th>ESTIMATION PROCEDURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Cost of funds</td>
<td>(1) 9.92%; (2) 10.5%; (3) 11.02%; (4) 11.32%; (5) 11.64%.</td>
</tr>
<tr>
<td>1.2</td>
<td>Markups achievable - rental</td>
<td>(1) 3%; (2) 2.5%; (3) 2%; (4) 2%; (5) 2%.</td>
</tr>
<tr>
<td>1.3</td>
<td>Markups achievable - T.C.</td>
<td>(1) 3%; (2) 2.5%; (3) 2%; (4) 2%; (5) 2%.</td>
</tr>
<tr>
<td>1.4</td>
<td>Percentage allocation - primary rental contracts</td>
<td>(1) 10%; (2) 20%; (3) 30%; (4) 25%; (5) 15%.</td>
</tr>
<tr>
<td>1.5</td>
<td>Percentage allocation - primary T.C. contracts</td>
<td>(1) 10%; (2) 20%; (3) 30%; (4) 25%; (5) 15%.</td>
</tr>
<tr>
<td>1.6</td>
<td>Secondary/Primary rental sales multiplier</td>
<td>Years 1 to 5: 52.38%</td>
</tr>
<tr>
<td>1.7</td>
<td>Secondary/Primary T.C. sales multiplier</td>
<td>Years 1 to 5: 52.38%</td>
</tr>
<tr>
<td>1.8</td>
<td>Number of extension months - rental</td>
<td>(1) 12; (2) 9; (3) 9; (4) 6; (5) 3.</td>
</tr>
<tr>
<td>1.9</td>
<td>Number of extension months - T.C.</td>
<td>(1) 12; (2) 9; (3) 9; (4) 6; (5) 3.</td>
</tr>
<tr>
<td>1.10</td>
<td>Percent of original invoice on sale of rental asset</td>
<td>(1) 50%; (2) 40%; (3) 30%; (4) 20%; (5) 10%.</td>
</tr>
<tr>
<td>1.11</td>
<td>Percent of original invoice on sale of T.C. asset</td>
<td>Above percentages divided by 2.</td>
</tr>
<tr>
<td>1.12</td>
<td>Percentage allocation - lease contracts</td>
<td>(1) 10%; (2) 20%; (3) 30%; (4) 25%; (5) 15%.</td>
</tr>
<tr>
<td>1.13</td>
<td>Underwritten Contracts Income</td>
<td>Exact calculation of net income stream.</td>
</tr>
<tr>
<td>1.14</td>
<td>Sales Estimates basis - first 12 months</td>
<td>Forecast based on current volume with known vendors.</td>
</tr>
<tr>
<td>1.15</td>
<td>Rental Sales Growth Estimates - years 2 to 5</td>
<td>(2) 5%; (3) Nil; (4) minus 5%; (5) Nil.</td>
</tr>
<tr>
<td>1.16</td>
<td>T.C. Sales Growth Estimates - years 2 to 5</td>
<td>(2) 20%; (3) 30%; (4) 35%; (5) 40%.</td>
</tr>
<tr>
<td>1.17</td>
<td>Lease Sales Growth Estimates - years 2 to 5</td>
<td>5% compound annual growth.</td>
</tr>
<tr>
<td>1.18</td>
<td>Bad debts calculi</td>
<td>0.5% of 1% of gross invoice value.</td>
</tr>
<tr>
<td>1.19</td>
<td>Direct transaction taxes (non-transferable)</td>
<td>Nil.</td>
</tr>
</tbody>
</table>

### 2 MAJOR EXPENSE CATEGORIES (incl. salaries)

#### Marketing
- Detailed subsidiary schedules from plan arguments.

#### Administration
- Detailed subsidiary schedules from plan arguments.

#### Credit Risk Costs
- Detailed subsidiary schedules from plan arguments.

### 3 CAPITAL ACQUISITIONS AND DEPRECIATION
- Detailed subsidiary schedules from plan arguments.

### 4 INTEREST AND TAX RATES

#### Rate earned on cash & short term deposits
- 5.00%

#### Short term loan rate
- 12.75%

#### Long term loan rate
- 9.75%

#### Corporate tax rate
- 39%

### 5 CASH FLOW TIMING

#### Receipts

<table>
<thead>
<tr>
<th>Period</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>(&lt; 30)</td>
<td>0%</td>
</tr>
<tr>
<td>(30-)</td>
<td>85%</td>
</tr>
<tr>
<td>(60-)</td>
<td>10%</td>
</tr>
<tr>
<td>(90+)</td>
<td>5%</td>
</tr>
</tbody>
</table>

#### Business Asset Sales
- Same period as earned.

### Outlays

#### Non-Salaries Marketing
- 30 days after expense incurred.

#### Non-Salaries Admin
- 30 days after expense incurred.

#### Non-Sal, Credit Risk Exp.
- 30 days after expense incurred.

#### Capital Outlays
- Same period as incurrence.

#### Interest Payments
- Same period as incurrence.

#### Tax Payments
- Detailed subsidiary schedule.

#### Salaries
- Same period as incurrence.

#### Dividend Policy
- Described in section 7.5.5
6.3.3 Salient Features of Case Execution

(1) The Dominant Communications Feature of the R&F Business Plan Was Imparting Understanding of a Complex Core Product and Its Extensions as the Basis of Engendering Lender Confidence

In accordance with the enhanced EBP paradigm's prescription to empower the reader, at the very heart of the R&F business plan was the need to explain the way its products worked without the explaining sections coming across as more suitable for a finance textbook than a corporate business plan.

This was done by illustrating that the process of determining R&F's profitability per one dollar of invoiced sale, from vendor to end user, involved 5 steps.

(1) For any duration of contract, (12 to 60 months), determine the cost of funds (COF interest rate), the achievable mark-up and hence the interest rate to be embodied in the end user contract (the client rate of interest).
(2) Calculate a factor (called the Present Value of an Annuity Due, or PVAD factor) at both the cost of funds and at the client rate of interest.
(3) Using PVAD, calculate the rental per period (at client rate), given the Invoice Price of goods being sold.
(4) Use this rental per period to calculate the principal received from a funder (at COF rate and its associated PVAD factor).
(5) Finally, calculate Primary Rental Income as the difference between Principal Received and Invoice Price of Goods. (This result can be expressed as a percentage of the invoice price).

After being provided with some worked examples, business plan readers were then presented with a table, called a 'contract calculus', which is reproduced, below, as exhibit 6.3-22. This contract calculus, culminating as it did in a figure representing R&F's primary income as a percentage of every dollar of invoice price of the capital goods represented in R&F's rental contracts, provided a simple mechanism for finance-industry readers to understand the way the company earned its primary income and was very popular with the target audience which could now clearly see that the key virtue of R&F's system of earning its core revenue was, of course, that all income on a primary rental transaction is earned and cashed immediately.
EXHIBIT 6.3-22
PRIMARY RENTAL
KEY CALCULATIONS USED IN THE BUSINESS PLAN PROJECTIONS

<table>
<thead>
<tr>
<th>CONTRACT CALCULUS PRIMARY RENTAL AND TRANSACTION COSTS PRODUCTS</th>
<th>1 YEAR</th>
<th>2 YEAR</th>
<th>3 YEAR</th>
<th>4 YEAR</th>
<th>5 YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>DATA ITEM</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Months</td>
<td>12</td>
<td>24</td>
<td>36</td>
<td>48</td>
<td>60</td>
</tr>
<tr>
<td>An. Cost of Funds %</td>
<td>9.92</td>
<td>10.5</td>
<td>11.02</td>
<td>11.32</td>
<td>11.64</td>
</tr>
<tr>
<td>Markup Annual %</td>
<td>3</td>
<td>2.5</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Client Rate An. %</td>
<td>12.92</td>
<td>13</td>
<td>13.02</td>
<td>13.32</td>
<td>13.64</td>
</tr>
<tr>
<td>M/ly Rate Cost of Funds</td>
<td>0.0083</td>
<td>0.0088</td>
<td>0.0092</td>
<td>0.0094</td>
<td>0.0097</td>
</tr>
<tr>
<td>M/ly Rate - Client</td>
<td>0.0108</td>
<td>0.0108</td>
<td>0.0109</td>
<td>0.0111</td>
<td>0.0114</td>
</tr>
<tr>
<td>PVAD Factor @ C.O.F.</td>
<td>11.4734</td>
<td>21.7515</td>
<td>30.8165</td>
<td>38.8226</td>
<td>45.7645</td>
</tr>
<tr>
<td>PVAD Fac. @ Client Rate</td>
<td>11.3213</td>
<td>21.2620</td>
<td>29.9924</td>
<td>37.4668</td>
<td>43.8162</td>
</tr>
<tr>
<td>Val. per P/ment on $1</td>
<td>0.0883</td>
<td>0.0470</td>
<td>0.0333</td>
<td>0.0267</td>
<td>0.0228</td>
</tr>
<tr>
<td>NPV all p/mts @ COF $1</td>
<td>1.0134</td>
<td>1.0230</td>
<td>1.0275</td>
<td>1.0362</td>
<td>1.0445</td>
</tr>
<tr>
<td>Primary Inc. Per $1 Inv.</td>
<td>0.0134</td>
<td>0.0230</td>
<td>0.0275</td>
<td>0.0362</td>
<td>0.0445</td>
</tr>
<tr>
<td>Primary Inc. As % Of Inv.</td>
<td>1.34%</td>
<td>2.30%</td>
<td>2.75%</td>
<td>3.62%</td>
<td>4.45%</td>
</tr>
</tbody>
</table>

R&F suffers effectively no lag between income and cashflow.\(^{31}\)

The plan went on to demonstrate that - once adequate competitive funding was in place - the company's potential for high profitability always was and would remain largely a function of the fact that rental contracts had the capacity to earn income not once but three times (as previously illustrated in exhibits 6.3-4 and 6.3-5, above). When plan readers saw how a relatively modest growth in primary gross revenue ($1 million to $1.4 million over the five years of projections) was expanded to a dramatic increase in total gross revenue ($7.5 million to $10.4 million over the five years of projections) they understood and became excited by the 'triple-earn multiplier' as a unique feature of the Sales Aid Finance Industry.

Finally, feedback was strongly positive from readers who appreciated the sheer innovativeness of the company, which the plan revealed. It is axiomatic that end users of capital equipment are interested in the equipment which vendors provide for one main reason: its functionality. On the whole, end user customers are uninterested in process (e.g. the advanced technology involved in a new photocopier). They are interested

\(^{31}\) For purposes of conservatism, the financial projections of the Entrepreneurial Business Plan employed the assumption that cashflow lagged income recognition by 30 days.
in output: expressed as a cost per unit of activity (e.g. the cost per copy which will result from using the new photocopier). Recognising this, R&F had developed a simple but very successful product innovation, 'Copy Cost', whereby the contract struck between vendor and end user was expressed in the form of an all-inclusive cost-per-copy on an agreed monthly basis rather than the traditional linkage with the retail price of the machine which produces those copies. From this beginning, the concept could be - and has been - extended to and customised for a variety of markets and circumstances. For instance, the salesman of a truck vending company can effectively sell vehicles to a fleet owner on the basis of dollar-per-kilogram-per-kilometre just as easily as photocopier vendors, using R&F's sales aid finance programs, are effectively selling their machines via contracts framed on the basis of cents-per-page-per-user. The generic title which R&F gives to contracts of this nature is 'Transaction Cost' Products. Richard Power is a particularly inventive entrepreneur and many of the Transaction Cost products which have sprung from his ingenuity have since become international benchmarks. Transaction Cost products have primary, secondary and tertiary income streams, in a similar manner to Rental products. The difference is leverage: a small equipment invoice price can generate substantial interest revenues when embodied in a transaction cost package.

Summarising the several communications effects of the business plan, R&F's managing director, Richard Power, has said:

'Taking pains to explain the basis of our profit calculations and including several mathematical-type exhibits in the document (which Kevin wanted to do and directors were initially sceptical about) was twice a revelation. First it empowered many finance executives whom we had wrongly assumed did understand how our discounted income was earned. Second, it enabled many less numerate finance executives to understand us - people whom we had despairingly assumed could never be made to understand the mechanics of our profitability. In this specific area - and so many other areas generally - the business plan gave funds suppliers the willingness to lend to us

32 An example is furnished by the multi-national electronics and communications company Ericsson. Power invented a customised sales aid financing package for use by Ericsson's Australian sales force, entitled 'CareWare'. The program received high praise in the company's international marketing audit and benchmarking evaluation process. It is to be introduced as a prime marketing tool throughout every sales division of Ericsson, worldwide.

33 The author.
because, I believe, they gained great confidence from a clearly communicated and enumerated statement of just what the hell it was that we did and how the hell doing it made money. We'd been painstakingly verbalising for seven years without generating a viable empathy for our business among suppliers. Suddenly, they began to understand us. The value of the plan's communications role was and remains of enormous benefit to us. It did what we hoped it would. It measurably enhanced our corporate status. And the measuring stick was dollars.'

(2) The Dominant Control And Simulation Feature Of Plan Execution

The enhanced EBP paradigm posits the central importance and simulation utility of a flexible financial model as the dominant feature of both control and simulation when executing all Entrepreneurial Business Plans. But for demonstration of the proposition, one could scarcely excel the R&F case. R&F's is a 'mathematical' business: one where the caprice of a small change in any one of thousands of seemingly 'small' numbers can have the profoundest effects upon performance and profitability. For instance, a slight change to the cost of funds for, say, 48 month capital equipment rental contracts in the corporate and government sectors, could mean the difference between writing a market-leading volume of business and no business at all: between profitability and disaster. The financial model which lies at the heart of the business plan, built by the author according to the precepts of the enhanced EBP paradigm, provided Richard Power and R&F's directors with a powerful tool for projecting the global and long-term implications of every policy consideration and projection assumption employed in their planning process.
6.3.4 CASE OUTCOMES: RESULTS OF PARADIGM APPLICATION

The business plan clearly fulfilled its major communication task. For the first time in R&F's history, its life-blood audience, wholesale funds suppliers, clearly understood that primary rental income was only the start of a chain of revenue earning. After the primary contract has expired, the equipment rental is extended. After the extension period, it is sold. The normal life cycle for rented equipment involved transition through all stages. The contribution which this 'triple-earn multiplier' makes to profitability definitely impressed the target audience as did the innovative nature of the company in developing specialist 'Transaction Cost' programs, tailor-made for the specific marketing needs of particular clients.

However, Section 5.2.2 of this thesis presented three questions which this case must address in terms demanding quantitative financial answers.

**The core question** 'Does the enhanced paradigm of Entrepreneurial Business Planning work?'

**Sub-question (a).** 'Did this business plan, produced by application of the enhanced EBP paradigm, induce an investor to supply the level of funds sought by the plan or a level of funds sufficient for achieving the plan's objectives?'

**Sub-question (b).** 'Did execution of the plan's prescriptions result in achievement of the plan's objectives?'

In the R&F case, the answers to all questions are unequivocally 'yes' and the extent of that affirmation can be measured in terms of:

1. **VOLUME GROWTH:** measured by funds under management and

2. **COST DECLINE:** in wholesale funding rates measured relative to the prevailing wholesale swap rate.

---

34 It will be remembered that chapter 5 stated that this question implied that a degree of longitudinality should apply to a research case capable of answering it. That is to say, sufficient time would have to be allowed between case execution and case analysis to judge some key aspects of growth. Such longitudinality does apply in the R&F case. As will be related presently, based on the success of the first, there had been three further editions of the R&F business plan to December 1995, and the EBP process is now part of corporate policy.
Exhibit 6.3-23 tells the first story. At the time of release of the first business plan (December 1992), R&F had $24 million in funds under management. By the time of the fourth iteration of the plan (December 1995) the company had over $100 million in funds under management - a figure which exceeded the initial business plan's projections by nearly $40 million.

**EXHIBIT 6.3-23**

**R&F's Growth in Funds Under Management**
**Comparison of Actuals with the 1992 Business Plan Projections**

<table>
<thead>
<tr>
<th></th>
<th>1993/94</th>
<th>1994/95</th>
<th>1995/96</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected</td>
<td>39,385,000</td>
<td>50,833,750</td>
<td>60,490,634</td>
</tr>
<tr>
<td>Actual</td>
<td>39,848,001</td>
<td>70,002,034</td>
<td>101,004,068</td>
</tr>
</tbody>
</table>

(Source: Rental and Finance Limited)

The extent to which actual performance has surpassed the 1992 business plan projections is even greater than the chart indicates because the figure of $101 million (comprised of $82 million by way of growth in the business activities prevailing in 1992 and $19 million by way of acquisition of a subsidiary finance corporation) was reached in December 1995 - only half way through the 1995/1996 financial year. Another way of looking at this success is that R&F had already reached the full extent of the business plan's five year funds under management projections (i.e. the figure for the 1997/98 financial year, $80 million) in just a little over two years. Yet another perspective is a simple multiple: the volume of funds under
management more than quadrupled in the three years since the release of the first edition of the R&F business plan.

As the volume of funds increased, so did their average cost come down, at an almost linear rate, plotted in exhibit 6.3-24. Clearly, the 1992 business plan target of lowering the average cost of funds to a maximum of 2.82% above the swap rate has been vigorously exceeded. The graph shows how the average cost of funds has come down from just above 3% above swap at the time of the plan’s release to just below 1.75% above swap three years later.

**EXHIBIT 6.3-24**

**R&F's Declining Average Cost Of Funds**

Expressed As A Percentage Above The Prevailing Swap Rate

![Graph showing the average cost of wholesale funds](image)

(Source: Rental and Finance Limited)

This chronicle of success began soon after the December 1992 release of the first edition of the R&F business plan and continued to December 1995 through three further editions of the plan:

- Second edition, April 1993;
- Third edition, July 1994;

It is now firm and established company policy to update the 5-year business plan on a regular basis and to produce an edition at the beginning of every financial year for release to all current and prospective wholesale funds
suppliers.\textsuperscript{35} Not since the first edition has there been any offer of equity participation in the company. The directors have achieved and exceeded their growth projections without any need to dilute their equity.

A brief list of major milestones, in each period between editions of the R&F business plan, will illustrate the company's post 1992 success story.

The period between edition 1 and edition 2 (December 1992 to April 1993) was short but very sweet. The sweetness can be savoured by recalling a sentence from the opening page of this case:

'The most dreaded threat came from Societe Generale, provider of a fifteen million dollar per annum funding facility which it was about to withdraw.'

Far from withdrawing the facility, subsequent to their scrutiny of the R&F business plan, Societe Generale doubled it to $30 million per annum. As will shortly be seen, the Societe Generale line of funding has grown to a facility with residual capacity in excess of $100 million. But the initial reprieve and increase - directly and solely attributed by Richard Power to the warm reception of the initial business plan - was the company's immediate salvation. On the strength of it, forecasts were immediately enhanced and embodied in an early 'mark 2' business plan released in April, 1993.

In the period from April 1993 to July 1994, there were many highlights, including the December, 1993 nineteen million dollar acquisition of a very profitable trade book of receivables in the medical industry. But the 'star of the show' was the attraction of Norwich Union Life Australia Ltd (Norwich) as a substantial funder. In October, 1993, a funding line of $500,000 per month was obtained and has continued to increase as Norwich increases its marketing of investment product linked to the R&F funding line. It was in this period, too, that the essential nature of the wholesale funds facilities available to the company began to change - substantially to R&F's advantage. Previously, funds facilities had all been cash advances, inhibitingly limited to a formula which tied them to the equity capital retained in the company. Now, on the basis of a better understanding of the nature and quality of the financial instruments created by R&F's contract

\textsuperscript{35} The author continues to advise the company in the production of these business plans.
formation and following Societe Generale's lead, facilities rapidly moved to being based on discounted cash flow, using the contract as security.

The period from July 1994 to July 1995 cemented the transition by wholesale funders and the company's corporate bank, the National Australia Bank (NAB), to recognition of the value of R&F-created contracts as financial assets in their own right. This enhanced perception, flowing directly, in Richard Power's estimation from the understanding generated by the business plan series, resulted in the NAB helping to facilitate a twenty five million dollar acquisition of a subsidiary corporation.

Between July and December of 1995 R&F rapidly increased the volume of all facilities available to it as the opening charts of this section demonstrated and commenced operations of its first international subsidiary, in New Zealand, based on an open-ended facility with Societe Generale. The corporate philosophy of partnership - R&F has always positioned itself as a 'marketing partner' with the equipment vendor companies for whom it devises and manages sales aid finance programs - was by then a fact with respect to its wholesale funds suppliers as well. By December 1995, several wholesale funders were regularly soliciting R&F's assistance in creating financial instruments to assist them considerably with the diversification and performance levels of their portfolios.

Of course the business plan was not the only ingredient in R&F's dramatic turnaround of its relationships with its wholesale funds suppliers. The company has a leader who, in the opinion of this author, is an outstanding entrepreneur of world-class calibre. He has a profound awareness of his own capabilities, a deep empathy for client needs and a faith in the rightness of his considered decisions even when they fly in the face of conventional wisdom. And he has the organisation capable of executing those decisions because R&F has enjoyed staff stability such as few companies in the finance industry ever enjoy, due to expert personnel management and training under Mr Power's fellow director, Robin Page. In early 1995, the company moved to new, purpose-designed premises on the 5th Floor of 201 Fitzroy Street, St Kilda. This real estate acquisition (8,000 square feet of floor space) can accommodate the company's planned expansion over the coming ten years. The acquisition of these premises was a direct reflection of the strength of R&F's business.
The marketplace for sales aid finance products is healthy amid an otherwise somewhat shaky economy. R&F has pioneered the innovative development of vendor and market-oriented finance products which are unique in the equipment finance industry and which give R&F and its associated vendors a significant market edge. The equipment finance industry itself is dynamic and this, coupled with increasing activity within the Australasian economic region, will ensure that product development will continue to be a significant part of R&F's activity for the foreseeable future. R&F has never yet faulted in its ability to produce financial innovations to match customer needs.

However, despite all these ancillary advantages, Richard Power has no doubts about attributing the substantial majority of the company's post-1992 successes in the attraction and cost-lowering of wholesale funds supply directly to the first business plan and its three subsequent editions.

'Look at it in numerical terms if you like,' he says.

'Our company files will show you records of one hundred and two personal verbal interviews I had, in the three years prior to release of the business plan, with senior representatives of major wholesale financiers seeking to explain our company to them and solicit funds from them. Results were negligible. After dissemination of the business plan, every key potential supplier we have targeted has sent round a guy or a team to do a due diligence on us and out of that process we have generated facility lines worth in excess of one hundred million dollars per year. Compare that with knocking on one hundred doors.'

As further evidence of his belief in the demonstrated success of the R&F Entrepreneurial Business Plan as simultaneously a communications device and a fund raising device, Richard Power quotes the reaction of the newly-appointed chief executive officer of the French-headquartered multinational financier, Societe Generale, M. Eduard Malo-Henry. Before taking up his Australian (and South East Asian) post, M. Malo-Henry's two previous posts had been: head of Societe Generale's asset based lending in France followed by international head of the audit division. He is a truly globally experienced financier of the highest calibre.
Richard Power relates:

'Shortly after his posting to Australia and within one month of reading our business plan,36 Eduard had come down to visit us. Within a month more, Societe Generale, had provided us with a one hundred million dollar facility, twenty five million of which we used straight away for the acquisition of what has become a very profitable subsidiary. Eduard was very complimentary about the quality of our business plan, comparing it favourably with the best documents he had encountered in his extensive international experience. Its key virtue, he and I agree, is that having read it, a person arrives in our offices far enough down the learning curve to be productive at the first meeting, ready to talk business on the basis of a proper understanding of exactly the nature of our needs and potential. In that sense, our business plan is our ultimate efficiency device in our relations with funds suppliers.'

The R&F case can legitimately claim to be a successful test of the efficacy of the enhanced paradigm of Entrepreneurial Business Planning.

---

36 Late 1995.
NOTE

The pagination of this thesis has been organised so that the pages can be printed double-sided.

As a result, there were blank pages at the end of some chapters, so that the first page of a new chapter always appeared on the page that faced up.

These blank pages are missing from this version of the thesis.

The pages involved are: vi, 32, 128, 302, 326, 224 and 344.
6.4 CASE FOUR:  
THE CHILDCO ACQUISITION EVALUATION

6.4.1 CASE PRESCRIPT: DEFINING CIRCUMSTANCES

Note: for reasons of commercial confidentiality, the names of all corporate protagonists have been stylized. Via the author, and subject to corporate headquarters approval, it is possible for genuinely interested bona fide researchers, willing to sign a confidentiality agreement, to be given access to the names of the actual three companies involved.

- Mr Able's Dilemma

In January, 1992, Mr Ron Able, managing director of ChildCo, felt himself caught on the horns of a dilemma. He was convinced that his company had reached the limits of its endogenous growth potential (a turnover of A$15 million yielding very satisfactory after tax profits and generating a healthy free cashflow). Logic indicated the advisability of considering an acquisition as a means of ensuring further growth. However, ChildCo was not master of its own destiny in this matter. ChildCo, an Australian distributor of specialised industrial components, was a fully-owned subsidiary of ParentCo, one of the world's largest multi-national industrial conglomerates, with international headquarters in London. In assessing the performance and rewarding the management of all its investee companies, ParentCo placed a premium on two objectives: (1) rapid growth and (2) generation of abundant cash for remission to head office for deployment in making further acquisitions. The management policy and reporting criteria demanded of all ParentCo subsidiaries had been standardised to facilitate achievement of both major objectives.

In particular, ParentCo insisted on a balance sheet format which distinguished cash from all other working capital items and rewarded managers for maximizing a ratio called 'Return on Controllable Capital Employed' - ROCCE (pronounced 'Rocky' and revered by the slogan 'Rocky is boss'). 'Controllable Capital Employed' was defined as 'net working capital, less cash, plus controllable fixed assets'. Every subsidiary was required to remit, to head office, all cash not absolutely required for solvency. The pooled cash was then applied to further acquisitions for the Group.
A legitimate summary description of ParentCo and its management philosophy would be: 'a share-price and dividend-payment driven professional acquirer of cash-generating, low-technology industrial companies'. ParentCo jealously guarded its central prerogatives: all acquisition decisions in its history, prior to this case, had been made centrally. No subsidiary had ever been allowed to make its own acquisition decision. Businesses in the group which either failed to grow or to generate required levels of cash were quickly divested. In these circumstances, Mr Able, managing director of ChildCo, expressed his dilemma to his immediate superior in the London head office of ParentCo, Mr Ian Willing:

'Ian, on the one hand ParentCo insists on continued growth and is acquisitions oriented. On the other hand, London is unlikely to prioritize my circumstances for consideration by the central M&A department because you have told me that they are deeply embroiled in assessing an acquisition whose proportions condemn my situation to minor status. It's not minor to me. Without an acquisition, ChildCo can't grow and central assessment of this company's performance is bound to be unfavourable. Yet, without the unlikely involvement of ParentCo's central M&A division, I'm not permitted to even consider an acquisition independently. Can you advise the board of my dilemma and seek their guidance?'

• The Unexpected Response: Evaluate An Acquisition Candidate

Mr Willing was understanding. He conveyed an unexpected and unprecedented authorisation for ChildCo to conduct a due diligence investigation on its own and required Mr Able to present a detailed acquisition analysis to the board in his personal report to London, scheduled for September, 1992.

If the evaluation was judged sound, Mr Able would be given the cash to make the acquisition. Mr Able's problem now became a lack of expertise and resources. He had never conducted an acquisition evaluation before and, given his on-going responsibilities, he had limited time and budget to conduct one now. Naturally, he was already appraised, by 'gut feel', market intelligence and talks with appropriate business advisors, of some potentially suitable candidates. He now increased his efforts and, by early August, 1992, his attention was sharply focused on a company called TargetCo.
Preliminary Evaluation Of Targetco

TargetCo was a successful, well established family company providing a complementary product line to ChildCo’s. It currently had a turnover of approximately $A12 million. Its owner, in his late seventies, was keen to sell and had commissioned a firm of chartered accountants to produce an information memorandum and effect the sale.

Between January and August, Mr Able had held ever-deepening discussions with TargetCo and its agents and had kept Mr Willing, in London, well informed. The more Able became involved the more he liked the ‘feel’ of the potential acquisition. ChildCo had recently moved to new premises and had facilities and staff quite capable of absorbing TargetCo as a division and effecting both operational synergies and economies of scale.

As against the mere checking of historical data and common-sense verification of various details, though, the performance of a rigorous and appropriate due diligence investigation had not been performed. Time was now brutally short. There was less than one month to the London meeting. It was looming as a crisis event because, in discussions with many traditional performers of due diligence investigations - mainly Merchant Banks and Chartered Accounting firms, Mr Able had learned four unpleasant things.

First, they all wanted much more time than he had available to conduct a thorough due diligence investigation - none agreed that it could be performed within a month.

Second, the fees quoted for the work were, in every case, more than Able’s budget would allow.

Third, the sheer volume of prefabricated activities contained in the due diligence agenda presented to him by the expert practitioners seemed overwhelming.

Fourth, to Able, many of the items in these agendas seemed blatantly unnecessary for anyone who had genuine empathy with the industry and markets in which ChildCo and TargetCo operated.

Involvement Of The Author And His Enhanced
EBP Paradigm Methods

These were the circumstances when this case researcher was introduced to Mr Able by a mutual business acquaintance who knew both of the researcher's desire to find suitable cases for field-testing his emerging enhancements of the EBP paradigm and of Mr Able's pressing need to conduct an efficient investigation. An arrangement was agreed wherein Mr Able and this researcher worked closely together as an acquisition evaluation team. The evaluation decision, whether or not to invest in an acquisition, depends on the establishment and execution of a method for conducting what has come to be known as a 'due diligence' investigation. Thus, this case, without losing its general validity as a test of the overall enhanced EBP paradigm, became an ideal particular test of the author's five-phase ECIPP due diligence method (outlined in section 4.4.6, above).

6.4.2 SUMMARY OF THE CONTENTS OF THE ACQUISITION EVALUATION

This paragraph from the acquisition evaluation sent to London contains the information which Mr Able believed was most relevant to the investment decision.

Mr Able wrote:

'Even a casual perusal of the proforma statements presented in the base case scenario indicates that - if the assumptions can be met - TargetCo is a worthy candidate for acquisition. Given a purchase price of $3,500,000, payback period (with cashflow after interest and tax) comes early in the fifth year. The business generates nearly $4.4 million in remissible cash over the five projected years. Taken with the ability to refund initial investment out of cashflow, the implication of this figure is very heartening. At the end of year five, ChildCo/ParentCo would possess a business which had totally recouped its investment outlay and thereafter - assuming no growth whatsoever - would be capable of turning over an additional $14 million per year, generating additional net after-tax profits of $1.1 million per year and additional net after-tax cashflow of over $1.2 million per year.'

Exhibits 6.4-1, 6.4-2 and 6.4-3 reproduce the projected income statements, cashflow statements and balance sheets of the base case scenario.
### EXHIBIT 6.4-1

**FIVE YEARS' PROJECTED INCOME STATEMENTS**

(***ParentCo Merchandising Format***)

---

**Proposed TargetCo Division**

<table>
<thead>
<tr>
<th>PROJECTED INCOME STATEMENTS</th>
<th>THE 5 YEARS FROM JULY 1, 1993 TO JUNE 30, 1998 (AUSTRALIAN DOLLARS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(ParentCo Merchandising Format)</td>
<td></td>
</tr>
</tbody>
</table>

#### YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 |
---|---|---|---|---|
**INCOME**<br>Gross Income | 10,725,000 | 11,798,000 | 12,682,000 | 13,316,000 | 13,982,000 |
Less Sales Tax | 75,075 | 82,586 | 88,774 | 93,212 | 97,874 |
**NET INCOME** | 10,649,925 | 11,715,414 | 12,593,226 | 13,222,788 | 13,884,126 |

#### COST OF GOODS SOLD

<table>
<thead>
<tr>
<th>GOODS COMPONENT</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Inv. (beg. period)</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Stock. Purchases</td>
<td>6,151,000</td>
</tr>
<tr>
<td>Stock Inv. (end period)</td>
<td>2,359,500</td>
</tr>
<tr>
<td><strong>Stock Used</strong></td>
<td>5,791,500</td>
</tr>
</tbody>
</table>

#### OTHER STOCK ASSOCIATED COSTS

<table>
<thead>
<tr>
<th>OTHER STOCK ASSOCIATED COSTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Labour</td>
<td>245,000</td>
</tr>
<tr>
<td>Warehouse Overheads</td>
<td></td>
</tr>
<tr>
<td>Duty Freight &amp; Insurance</td>
<td>1,606,750</td>
</tr>
<tr>
<td><strong>TOTAL Oth. Stock Assoc. Costs</strong></td>
<td>1,853,750</td>
</tr>
</tbody>
</table>

#### TOTAL C.O.G.S.

| TOTAL C.O.G.S. | 7,645,250 | 8,267,640 | 8,796,940 | 9,088,560 | 9,388,300 |

#### GROSS MARGIN

| GROSS MARGIN | 3,004,675 | 3,447,774 | 3,796,286 | 4,134,228 | 4,495,826 |

#### NON INTEREST GENERAL EXPENSES

<table>
<thead>
<tr>
<th>NON INTEREST GENERAL EXPENSES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>770,151</td>
</tr>
<tr>
<td>Administration</td>
<td>561,099</td>
</tr>
<tr>
<td>Research &amp; Development</td>
<td></td>
</tr>
<tr>
<td>Depreciation Plant</td>
<td>15,000</td>
</tr>
<tr>
<td>Depreciation Non Plant</td>
<td>2,000</td>
</tr>
<tr>
<td>Rentals</td>
<td>10,725</td>
</tr>
<tr>
<td>Amortization of Goodwill</td>
<td>300,000</td>
</tr>
<tr>
<td><strong>TOTAL Non Int. Gen. Exp.</strong></td>
<td>1,656,975</td>
</tr>
</tbody>
</table>

#### EBIT

| EBIT | 1,347,700 | 1,578,927 | 1,722,887 | 2,003,570 | 2,305,907 |

#### INTEREST EFFECTS

<table>
<thead>
<tr>
<th>INTEREST EFFECTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ADD Interest Earned</td>
<td>26,081</td>
</tr>
<tr>
<td>LESS S/T Interest</td>
<td></td>
</tr>
<tr>
<td>LESS L/T Interest</td>
<td></td>
</tr>
<tr>
<td>LESS Credit Policy Costs</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL Net Interest Effects</strong></td>
<td>(461,325)</td>
</tr>
</tbody>
</table>

#### TAXABLE INCOME

<table>
<thead>
<tr>
<th>TAXABLE INCOME</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>866,375</td>
<td>1,109,485</td>
</tr>
</tbody>
</table>

#### INCOME TAX

| INCOME TAX | 345,686 | 432,699 | 488,504 | 603,891 | 729,339 |

#### PROFIT AFTER TAX

| PROFIT AFTER TAX | 540,689 | 676,786 | 764,070 | 944,547 | 1,140,761 |
### Exhibit 6.4-2

**Five Years' Projected Cash Flow Statements**

**Proposed TargetCo Division**

**Projected Cash Flow Statements**

The 5 Years from July 1, 1993 to June 30, 1998 (Australian Dollars) (ParentCo Format)

<table>
<thead>
<tr>
<th>Year</th>
<th>YEAR 1</th>
<th>YEAR 2</th>
<th>YEAR 3</th>
<th>YEAR 4</th>
<th>YEAR 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH RECEIPTS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts From Income</td>
<td>8,928,563</td>
<td>11,618,273</td>
<td>12,533,930</td>
<td>13,209,805</td>
<td>13,870,445</td>
</tr>
<tr>
<td>Interest Receipts</td>
<td>26,081</td>
<td>57,895</td>
<td>94,627</td>
<td>141,452</td>
<td></td>
</tr>
<tr>
<td>Capital Asset Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to Borrowings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to Equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL RECEIPTS</td>
<td>8,928,563</td>
<td>11,644,354</td>
<td>12,591,825</td>
<td>13,304,432</td>
<td>14,011,897</td>
</tr>
</tbody>
</table>

**TRADING PAYMENTS**

**Recurred Expenditure Outlays**

| Stock Payments          | 4,121,170 | 6,456,507 | 6,888,953 | 7,235,291 | 7,575,796 |
| Direct Labour Costs     | 245,000   | 245,000   | 300,000   | 300,000   | 300,000   |
| Direct Overheads Costs  | 75,075    | 82,586    | 88,774    | 93,212    | 97,874    |
| Duty, Freight & Insurance | 1,608,750 | 1,651,720 | 1,648,660 | 1,597,920 | 1,538,020 |
| Sales Tax               | 10,725    | 11,798    | 12,682    | 13,316    | 13,982    |
| Non-Salaries Marketing  | 536,250   | 589,900   | 634,100   | 665,800   | 699,100   |
| Non-Salaries Admin      | 321,750   | 353,940   | 380,460   | 399,480   | 419,460   |
| Non-Salaries R & D      |            |            |            |            |            |
| Salaries & On Costs Expenses | 473,250   | 597,709   | 725,207   | 725,207   | 725,207   |
| Total Rec. Exp Outlays  | 7,391,970 | 9,989,160 | 10,688,836 | 11,030,227 | 11,369,439 |
| Capital Outlays         |            |            |            |            |            |
| Cap. Expenditure Plant  | 150,000   |            |            |            |            |
| Cap. Expend. Non Plant  |            | 20,000    |            |            |            |
| Cap. Expend Land & Bldgs|            |            | 20,000    |            |            |
| Repay Principal         |            |            |            |            |            |
| Total Capital Outlays   | 150,000   | 20,000    | 70,000    | 80,000    | 80,000    |
| TOTAL TRADING P/MENTS   | 7,541,970 | 10,009,160 | 10,758,836 | 11,110,227 | 11,449,439 |
| TRADING CASHFLOW        | 1,386,592 | 1,635,194 | 1,832,989 | 2,194,206 | 2,562,458 |
| INTEREST PAYMENTS        |            |            |            |            |            |
| Interest Payments       |            |            |            |            |            |
| Credit Policy Costs     | 461,325   | 495,524   | 528,207   | 549,759   | 577,260   |
| TOTAL Interest Payments | 461,325   | 495,524   | 528,207   | 549,759   | 577,260   |
| PRE-TAX CASHFLOW        | 925,267   | 1,139,671 | 1,304,782 | 1,644,447 | 1,985,198 |
| Income Tax              | 345,686   | 432,699   | 488,504   | 603,891   | 729,339   |
| AFTER TAX CASHFLOW      | 579,581   | 706,972   | 816,278   | 1,040,556 | 1,255,860 |

**EQUITY DISBURSEMENTS**

<table>
<thead>
<tr>
<th>Dividend</th>
<th>Other Equity Reductions</th>
<th>Other Non-trading disb.</th>
<th>TOTAL Equity Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET CASH FLOW</td>
<td>579,581</td>
<td>706,972</td>
<td>816,278</td>
</tr>
<tr>
<td>BEG CASH BALANCE</td>
<td>579,581</td>
<td>1,286,553</td>
<td>2,102,831</td>
</tr>
<tr>
<td>END CASH BALANCE</td>
<td>579,581</td>
<td>1,286,553</td>
<td>2,102,831</td>
</tr>
</tbody>
</table>
### EXHIBIT 6.4-3

**FIVE YEARS’ BALANCE SHEETS**

**(PARENTCO FORMAT)**

Proposed TargetCo Division

**PROJECTED BALANCE SHEETS**

**THE 5 YEARS, ENDING JUNE 30, 1994 to 1998**

**(AUSTRALIAN DOLLARS)**

**(ParentCo Format)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>YEAR 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CONTROLLABLE FIXED ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant at W.D.V.</td>
<td>135,000</td>
<td>121,500</td>
<td>154,350</td>
<td>183,915</td>
<td>210,524</td>
</tr>
<tr>
<td>Non-Plant at W.D.V.</td>
<td>18,000</td>
<td>34,200</td>
<td>57,780</td>
<td>79,002</td>
<td></td>
</tr>
<tr>
<td>Land and Buildings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Non Cur. Assets</strong></td>
<td>135,000</td>
<td>139,500</td>
<td>188,550</td>
<td>241,695</td>
<td>289,526</td>
</tr>
<tr>
<td><strong>CURRENT ASSETS (less cash)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>1,796,438</td>
<td>1,976,165</td>
<td>2,124,235</td>
<td>2,230,430</td>
<td>2,341,985</td>
</tr>
<tr>
<td>Stock Inventory</td>
<td>2,359,500</td>
<td>2,595,560</td>
<td>2,790,040</td>
<td>2,929,520</td>
<td>3,076,040</td>
</tr>
<tr>
<td><strong>Tot. Current Assets (less cash)</strong></td>
<td>4,155,938</td>
<td>4,571,725</td>
<td>4,914,275</td>
<td>5,159,950</td>
<td>5,418,025</td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>2,029,830</td>
<td>2,180,303</td>
<td>2,324,111</td>
<td>2,418,940</td>
<td>2,539,944</td>
</tr>
<tr>
<td>Short Term Borrowings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Cur. Liabs</strong></td>
<td>2,029,830</td>
<td>2,180,303</td>
<td>2,324,111</td>
<td>2,418,940</td>
<td>2,539,944</td>
</tr>
<tr>
<td><strong>NET WORKING CAPITAL</strong></td>
<td>2,126,108</td>
<td>2,391,422</td>
<td>2,590,164</td>
<td>2,741,010</td>
<td>2,878,081</td>
</tr>
<tr>
<td><strong>CONTROLLABLE CAP. EMP.</strong></td>
<td>2,261,108</td>
<td>2,530,922</td>
<td>2,778,714</td>
<td>2,982,705</td>
<td>3,167,607</td>
</tr>
<tr>
<td><strong>OTHER ASSETS &amp; LIABS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>1,200,000</td>
<td>900,000</td>
<td>600,000</td>
<td>300,000</td>
<td></td>
</tr>
<tr>
<td>Cash &amp; Shl Term Deposits (A)</td>
<td>579,581</td>
<td>1,286,553</td>
<td>2,102,831</td>
<td>3,143,387</td>
<td>4,399,246</td>
</tr>
<tr>
<td>Long Term Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Income Tax (L)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Non Current Liabs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Other Assets &amp; Liabs.</strong></td>
<td>1,779,581</td>
<td>2,186,583</td>
<td>2,702,831</td>
<td>3,443,387</td>
<td>4,399,246</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td>4,040,689</td>
<td>4,717,474</td>
<td>5,481,545</td>
<td>6,426,092</td>
<td>7,566,853</td>
</tr>
<tr>
<td><strong>SHAREHOLDERS FUNDS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Subscribed</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>General Reserve</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share Premium Reserve</td>
<td>1,200,000</td>
<td>900,000</td>
<td>600,000</td>
<td>300,000</td>
<td></td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>840,689</td>
<td>1,817,474</td>
<td>2,881,545</td>
<td>4,126,092</td>
<td>5,566,853</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td>4,040,689</td>
<td>4,717,474</td>
<td>5,481,545</td>
<td>6,426,092</td>
<td>7,566,853</td>
</tr>
</tbody>
</table>
6.4.3 Salient Features Of Case Execution

(1) The Major Communication Feature: Talking To Oneself

When working on the investor side of the fence, the definition of the target audience is easy. The investor has only himself (or herself) to convince. Of course, in a corporate environment, one answers through one’s superiors, to the relevant investment committee. In this case, Mr Able’s audience consisted of Mr Willing and the M&A committee of ParentCo.

(2) The Major Control Feature: A Strong Participatory Action Research Partnership

The researcher/practitioner partnership was an iterative, productive and intense relationship, characteristic of Participatory Action Research (PAR) as defined by Whyte (1989).

PAR is an emerging methodology for advancing scientific knowledge through direct linkages between research and action.

'... in PAR the researcher combines participant observation with explicitly recognized action objectives and a commitment to carry out the project with the active participation in the research process by some member(s) of the organisation studied'. (Whyte 1989: 369).

The author gratefully acknowledges Mr. Able’s invaluable co-involvement in producing the generic knowledge which emerged from their mutual work, as Mr. Able acknowledges what he regards as the efficient solution to a complex problem which resulted from utilizing the author’s enhanced EBP paradigm and 5-stage dynamic due diligence method.

(3) The Dominant Simulation Feature: Production Of The TargetCo Due Diligence Matrix

The ECIPP method of dynamic due diligence (presented in pages 116 to 120 above) is based on the productive use of the simulations which possession of a sophisticated financial model of the target business makes possible. The focus of all simulation exercises is the production of a construct which the author has called a 'due diligence matrix'. The TargetCo due diligence matrix is reproduced, in the next section as exhibit 6.4-5S. Rather than
reproducing the exhibit in this section, it was determined that the most efficient mode of presentation would be to place the due diligence matrix, in sequence, as the fourth outcome of the five-phase ECIPP due diligence process employed to perform the acquisition evaluation.

6.4.4 CASE OUTCOMES: RESULTS OF PARADIGM APPLICATION

- **Phase 1: Establishing Financial Performance Mandates**

Mr Able had done considerable preliminary work in examining TargetCo's past trading records and accounts. He knew the market well. He knew the growth requirements for ParentCo subsidiaries. He therefore had a good feel for what TargetCo could and must achieve in sales growth over the forthcoming five financial years. He went on to articulate over 30 financial performance mandates which TargetCo had to be able to meet to become a worthwhile acquisition. To this researcher, all mandates seemed conservative and reasonable - there was no sense of 'asking the impossible'. He even started by projecting sales substantially lower than had been achieved in either of the preceding two financial years.

- **Phase 2: Creating 'First Round' Financial Projections**

With so many input mandates specified, it soon became apparent to Mr. Able that a sophisticated and adaptable financial model was essential for seeing and interpreting the pattern of mutual interdependencies which emerged from them. Using FIPRAL\(^{37}\), the researcher built for him a financial model which generated, via detailed subsidiary schedules, the three fundamental, integrated statements (P&L, Cashflow and Balance Sheets) presented in exhibits 6.4-1 to 6.4-3, above. A summary of the core financial data and important ratios and statistics which emerged from development of the base case scenario (Scenario One) is presented in Exhibit 6.4-4, below.

There were many encouraging factors. ParentCo required return on controllable capital employed (ROCCE) of no less than 45%. The evaluation's base-case scenario projected ROCCE figures in excess of 60%. This had strong appeal - as did the percentages generated for cashflow as a percentage of sales and most other statistics and ratios. Finally, given an

\(^{37}\) The financial modelling program, built by the author, first introduced in section 4.5.5, above, and illustrated in appendix A-4 using data and examples from the Wirrilla case.
asking price of $3,500,000 and discounting cumulative net worth at the end of year five of the projections, the projected internal rate of return on investment, in the base case scenario, was 16.67%. This exceeded the minimum acceptable rate of return which ParentCo required from acquisitions in TargetCo’s industry. Clearly, TargetCo was worthy of further investigation.

**EXHIBIT 6.4-4**

**SUMMARY DATA ON THE PROJECTED BASE CASE SCENARIO**

<table>
<thead>
<tr>
<th>Proposed TargetCo Division</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRADING SUMMARY &amp; KEY STATISTICS</td>
</tr>
<tr>
<td>THE 5 YEARS FROM JULY 1, 1993 TO JUN 30 1998 (AUSTRALIAN DOLLARS)</td>
</tr>
<tr>
<td>YEAR 1</td>
</tr>
<tr>
<td>-------------------------</td>
</tr>
<tr>
<td>PROJECTED FIGURES</td>
</tr>
<tr>
<td>GROSS SALES</td>
</tr>
<tr>
<td>COGS</td>
</tr>
<tr>
<td>GROSS MARGIN</td>
</tr>
<tr>
<td>GENERAL EXPENSES</td>
</tr>
<tr>
<td>EBIT</td>
</tr>
<tr>
<td>AFTER TAX PROFIT</td>
</tr>
<tr>
<td>CONTROLLABLE CAP. EMP.</td>
</tr>
<tr>
<td>TRADING CASHFLOW</td>
</tr>
<tr>
<td>STOCK (PERIOD END)</td>
</tr>
<tr>
<td>NET WORTH</td>
</tr>
<tr>
<td>STATISTICS AND RATIOS</td>
</tr>
<tr>
<td>ROCCE %</td>
</tr>
<tr>
<td>GROSS MARGIN/SALES %</td>
</tr>
<tr>
<td>EBIT/SALES %</td>
</tr>
<tr>
<td>A.T. PROFIT/SALES %</td>
</tr>
<tr>
<td>TDG CFLOW/SALES %</td>
</tr>
<tr>
<td>DEBTOR DAYS</td>
</tr>
<tr>
<td>CREDITOR DAYS *</td>
</tr>
</tbody>
</table>

*Note: creditor days = total credit additions (all credit purchases) div. by A/C Pay (end) times 360.

- **Phase 3: Identify due diligence issues using sensitivity analysis**

In any application of the ECIPP method, once a sophisticated financial model is built and the base case scenario has been generated, there is an infinity of scenarios which can be generated and an infinity of nuances which can be gleaned from scenario comparisons. The practical question becomes: 'how many outcome scenarios should be tested by changing which input assumptions in what combination?' There is no prescribed answer to this question. The generation of alternatives is a matter for judgment. The only obvious 'rules' are: (1) begin by changing only one assumption at a time and observing its effects and (2) test all mandates and assumptions to which performance might be sensitive.
The great virtue of having a sophisticated, integrated financial model of the venture at one's service is the sheer speed with which sensitivity testing can be performed. Mr Able and the researcher tested literally hundreds of combinations of altered assumptions in one eight-hour session and recorded the sensitivity of key financial outcomes (profit, cashflow, net worth etc. etc.) to the changes. They soon developed a simulation data base which indicated what outcomes were sensitive to what inputs in what degree.

For Mr Able, conducting Stage 3 of the acquisition evaluation proved to be a revelation.

He was astounded and surprised that many of the input variables to which he thought key financial outcomes would be sensitive could be substantially changed with very marginal effect on overall results. Vice versa, he discovered that even slight changes to input assumptions, mandates and data which he thought unlikely to have much effect on outcomes, produced significant variations in ultimate results. And, along the way, the process of sensitivity analysis generated a great many managerial insights which were relevant not only to the future management of a possible TargetCo division, but to his current management of ChildCo in the context of ParentCo corporate policy.

One example - nominated as 'Scenario 2' - will suffice to illustrate this general point. It is provided in detail in section 7.3.3, below, in support of an argument for the extended relevance of the ECIPP method as a management tool. In one-sentence summary: utilising the ECIPP method, Able and the researcher confirmed a strong suspicion that the ParentCo-inspired credit policy, while it had beneficial effects on cashflow generation in the short term, actually penalised the firm's profitability and the longer term growth in net worth.

• Phase 4: Prioritize Due Diligence Procedures: The Due Diligence Matrix

With every such alternative generated, Mr. Able's insights expanded and a data base was built up which enabled the prioritizing of due diligence procedures. Exhibit 6.4-5 contains the due diligence matrix which emerged from the numerous sensitivity analysis iterations.
EXHIBIT 6.4-5
THE TARGETCO DUE DILIGENCE MATRIX
A RANK-ORDERED LIST OF INVESTMENT SENSITIVITIES
AND INVESTIGATION PRIORITIES

<table>
<thead>
<tr>
<th>KEY FINANCIAL ITEM</th>
<th>CORE DUE DILIGENCE ISSUES</th>
<th>IN-HOUSE DUE DILIGENCE</th>
<th>EX-HOUSE DUE DILIGENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CROSS MARGIN IS CRITICAL</td>
<td>CRUCIAL IMPORTANCE OF ONE ITEM</td>
<td>IDENTIFY MAJOR COMPONENT OF CROSS MARGIN DURABILITY. It is stock (inventory) costs.</td>
<td>Guidance from ParentCo.</td>
</tr>
<tr>
<td></td>
<td>The viability of the acquisition hinges on this.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>STOCK INVENTORY COSTS</td>
<td>CRUCIAL IMPORTANCE OF ONE ASSUMPTION</td>
<td>Generate alternative scenarios using the financial model to test sensitivity of business viability to cost movements.</td>
<td>Detailed discussions with suppliers.</td>
</tr>
<tr>
<td></td>
<td>The largest component of all costs is the cost of stock. Can my assumption of a reduction from the present cost (50% of gross sales) to 54% be met?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SALES FORECASTS</td>
<td>MARKETING ISSUES</td>
<td>Desk Data (ABS, Ibis, etc.). Interviews</td>
<td>Formal Mtg Research</td>
</tr>
<tr>
<td></td>
<td>• Market size</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Market share and nature of competition*</td>
<td>Interviews</td>
<td>Formal Mtg Research</td>
</tr>
<tr>
<td></td>
<td>• Market growth rate</td>
<td>Reasonable extrapolation</td>
<td>Research customer attitudes to genuinely understand competitive advantages and distinctive competencies</td>
</tr>
<tr>
<td></td>
<td>• Nature of demand</td>
<td>Shadow Shopper</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Segment</td>
<td>Product/customer matrix</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Consumer behaviour</td>
<td>Interviews/trade assoc. &amp; press</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Nature of competition*</td>
<td>It is hard to forecast implications of competitive changes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TargetCo is complacent about competitive threats, especially potential of RivalCo to change policy.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ORGANISATIONAL ISSUES</td>
<td>Interviews / labour market</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Key Personnel</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CREDIT POLICY ISSUES</td>
<td>Assess correct credit policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Credit Policy Costs</td>
<td>Judgement call fr. trading data</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Balancing bad debt risk against lost sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SALES TAX</td>
<td>IMPACT OF POSSIBLE GST</td>
<td>Monitor political situation &amp; incorporate likely impacts in financial model</td>
<td></td>
</tr>
<tr>
<td>DEBT EQUITY MIX</td>
<td>OPTIMUM CAPITAL STRUCTURE</td>
<td></td>
<td>Expand the detail of the current financial model. Use auditors &amp; valuers.</td>
</tr>
<tr>
<td></td>
<td>What mixture of debt and equity optimises profits and return on controlable capital employed.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUMMARY</td>
<td>KNOW BUYERS, COMPETITORS &amp; SUPPLIERS</td>
<td>All of the above.</td>
<td>Guidance from ParentCo.</td>
</tr>
</tbody>
</table>

- Column One lists the financial items which sensitivity analysis indicated to be the keys to the viability of the potential acquisition.

- Column Two lists what Able now believed to be the core due diligence issues and risks inherent in challenging the assumptions which produced the column-one item.

- Columns Three and Four summarise the in-house and ex-house procedures which could be used to assess risks and improve future rounds of forecasting and projection production.

Mr Able now felt he had enough information and insight to take to his forthcoming September meeting in London where he would use the due
diligence matrix as a catalyst of discussion with ParentCo senior management. The researcher and Mr Able encompassed their investigations to this point in a written report - the full text of which is presented as CASE 4 in volume II.38

Mr Able went to his meeting where his presentation was very well received.

- **Phase 5: Perform Procedures And Amend Projections**

At the London meeting, it was decided to put the onus for performing the due diligence procedures back on TargetCo itself.

Subsequently, milestones and tests on every due diligence issue contained in the due diligence matrix were established and a contingency agreement was struck with TargetCo. ChildCo agreed to acquire TargetCo at a price specified in a performance-related formula if certain specified milestones (involving such matters as negotiating improved supplier contracts) were to be achieved over one year’s trading.

As it turned out, TargetCo did not achieve ParentCo’s required milestones and the deal did not eventuate.

In this case, of course, the execution of a deal is irrelevant to the process of drawing conclusions about the efficacy of the relevant prescriptions of the enhanced EBP paradigm. ChildCo benefitted substantially from the analytical process, from sharing in the insights revealed in all phases of the participatory action research and by not making an imprudent investment. ChildCo and ParentCo substantially lowered their risk by deferring the acquisition decision until prioritized due diligence issues were actually resolved, in the field.

- **Answers To The Specific Investor-Perspective Case Sub-Questions**

The research questions which this case addressed were presented on pages 138 and 139 above.

They were:

---

38 It simultaneously provides this fourth case’s research data base and case protocol.
Sub-question (a). 'Did the investment analysis (an acquisition evaluation), produced by application of the enhanced EBP paradigm, provide the potential investor with a systematic method for investment decision making by indicating a "most likely" return on investment scenario?

Sub-question (b). If so, did that method indicate the due diligence factors influencing the risks and probabilities of achieving this "most likely" ROI scenario?

To both questions the answer is 'yes'.

The issue of how generalisable the result is will be discussed in section 7.4.4, below, subsequent to an examination of the case's demonstration that the ECIPP method of dynamic due diligence presents managers with a cost-effective alternative to the two due diligence regimes now dominant in the mergers and acquisitions field.
NOTE

The pagination of this thesis has been organised so that the pages can be printed double-sided.

As a result, there were blank pages at the end of some chapters, so that the first page of a new chapter always appeared on the page that faced up.

These blank pages are missing from this version of the thesis.

The pages involved are: vi, 32, 128, 302, 326, 224 and 344.
CHAPTER ABSTRACT

The research reported the previous chapter presented four cases which tested the efficacy of the enhanced EBP paradigm. In this chapter, cross-case analysis supports the contention that application of the enhanced EBP paradigm is efficacious in removing a wide range of growth impediments and can be applied to a wide range of ventures situated across a broad spectrum of the business life cycle - from startups to relatively mature ventures. Instead of defining the limits of EBP applicability, the startup business situation can now be seen to be merely one among an infinity of impeded growth situations. It is in the virtually limitless arena where battle is done to overcome impeded growth that the tenets and techniques provided by the enhanced paradigm of Entrepreneurial Business Planning have been shown to be versatile weapons.

In summary, as a result of the research reported in this dissertation, Entrepreneurial Business Planning may be regarded as a distinct grouping of integrated techniques amounting to a managerial technology for removing impediments to business growth by attracting necessary investments on behalf of articulated strategies. Entrepreneurial Business Planning has thus emerged from vague definition amid the narrow contextual confines of a startup venture seeking venture capital, to precise definition in a far broader context as a generic technology for the removal of impediments to business growth, wherever and however they occur.

Four points encapsulate the most significant results of the research to the community of entrepreneurship scholars and practitioners and beyond them, to the managerial community at large.

(1) It Provides A Basis For Systematic Inquiry In The Field Of Entrepreneurial Business Planning And A Template For Quality Assessment Of Entrepreneurial Business Plans
(2) *It Redresses The Imbalance Between Research And Teaching In An Important Field Of The Entrepreneurship Discipline*

(3) *It Extends The Domain, Credibility And Utility Of Entrepreneurship As A Discipline*

(4) *It Is The Potential Generator Of Many Practical Analytical Constructs And Corollary Theory In A Wide Variety Of Managerial Fields*

Two examples of domain extension and the generation of corollary theory and practice are furnished.

First, extended analysis of the Wirrilla case (CASE 2 of chapter 6) provides the capacity to develop a useful term - 'venture renaissance' - for the domain of all non startup applications of the enhanced paradigm of Entrepreneurial Business Planning. Certain circumstances in venture renaissance environments give rise to the cyclical opportunity for what may be called 'ersatz venture capital' markets. And the concept of ersatz venture capital leads to the development of two useful private equity analytical constructs: the EVC zone matrix and the deal zone matrix.

Second, extended analysis of the ChildCo case (CASE 4 of chapter 6) provides the capacity to develop the ECIPP method of dynamic due diligence (an analytical construct first introduced in chapter 4, above) into a regime for performing the due diligence function in the field of mergers and acquisitions. Contrasting the new regime with the two established prescriptions expands both theoretical and practical insights in the discipline of finance.

These two illustrations of corollary theory and practice 'square the circle' as it were, by providing perhaps the best concluding argument in favour of the proposition that the enhanced EBP paradigm has substantial general utility.

Finally, acknowledgement of the eventual theoretical ephemerality of all paradigms does not limit the current practical utility of this particular paradigm. It is merely a recognition that productive research in the EBP field will continue.
7.1 CROSS-CASE ANALYSIS

7.1.1 CROSS-CASE COMPARISON OF KEY CASE ATTRIBUTES

- **The Case Attribute Matrix Re-Visited**

Page 143, above, introduced the case attribute matrix (exhibit 5-3) which, for readers' convenience, is reproduced on the following page. Exhibit 5-3 summarises cross-case comparisons of 16 key case attributes. The case attribute matrix's initial usage, in chapter 5, above, was as a research design component to support the contention that the case mixture had been chosen to cover a wide range of business circumstances and situations with a view to maximising the eventual ability to make valid generalisations to theory. The time has now come to make succinct use of the case attribute matrix as a tool of case analysis. Its main strength as an analytical tool is its ability to enhance the attribution of causality to the EBP paradigm by overtly addressing factors which may otherwise have possessed implicit credence as alternative explanations of the successful outcomes of the four cases presented in the previous chapter.

- **Attributes 1, 2 And 3: Industry And Business Diversity**

Case research demonstrated that the theoretical and applied utility of the enhanced EBP paradigm is not specific to industry level (primary, secondary or tertiary); industry classification (the applied paradigm generated successes in four separate industry classifications - agriculture, manufacturing, retail and service/finance) or specific business type.

- **Attributes 4 And 5: Equal Applicability To Debt Or Equity And Investee Or Investor**

The four research cases provided a demonstration of the versatility of value-adding circumstances to which the enhanced EBP paradigm may be successfully applied. Entrepreneurial business plans emanating from the enhanced EBP paradigm were successful in generating substantial volumes of both debt and equity funding and were useful to both prospective investees and prospective investors.
## EXHIBIT 5-3

**CASE ATTRIBUTE MATRIX**

<table>
<thead>
<tr>
<th>Attr. #</th>
<th>MAJOR CASE ATTRIBUTES</th>
<th>CASE 1 BES CUPS</th>
<th>CASE 2 WIRRILLA</th>
<th>CASE 3 R&amp;F</th>
<th>CASE 4 ChildCo</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General Industry Level</td>
<td>Secondary</td>
<td>Primary</td>
<td>Tertiary</td>
<td>Mixed</td>
</tr>
<tr>
<td>2</td>
<td>Macro Industry Classification</td>
<td>Manufacturing</td>
<td>Agriculture</td>
<td>Finance</td>
<td>Retail</td>
</tr>
<tr>
<td>3</td>
<td>Specific Business Type</td>
<td>Manufacturer of fast food containers</td>
<td>Asparagus farm with processing facilities</td>
<td>Provider of retail rental and leasing funds</td>
<td>Manufacturer’s agent &amp; industrial distributor</td>
</tr>
<tr>
<td>4</td>
<td>Primary Objective Of Business Plan</td>
<td>Secure equity investor (sale of business)</td>
<td>Secure equity investor (sale of business)</td>
<td>Secure debt funding at wholesale rates</td>
<td>Evaluate acquisition candidate</td>
</tr>
<tr>
<td>5</td>
<td>Fundamental Dependent Variable</td>
<td>Value added</td>
<td>Value added</td>
<td>Value added</td>
<td>Perception of value added probability</td>
</tr>
<tr>
<td>6</td>
<td>Key Impeded Growth Factor To Be Overcome</td>
<td>Chronic insolvency</td>
<td>Chronic insolvency</td>
<td>High cost of debt</td>
<td>Market saturation</td>
</tr>
<tr>
<td>7</td>
<td>Major Market Risk</td>
<td>Imminent liquidation</td>
<td>Imminent liquidation</td>
<td>Severe growth regression</td>
<td>Stagnation</td>
</tr>
<tr>
<td>8</td>
<td>Rating Of The General Business Skill Level Of the Entrepreneur</td>
<td>Medium</td>
<td>Low</td>
<td>Very High</td>
<td>High</td>
</tr>
<tr>
<td>9</td>
<td>Entrepreneur’s Initial Attitude To The EBP Exercise</td>
<td>Hopeful</td>
<td>Hostile and contemptuous</td>
<td>Wary</td>
<td>Sceptical</td>
</tr>
<tr>
<td>10</td>
<td>Audience Focus Of Plan</td>
<td>Large manufacturers * competitors</td>
<td>Global traders knowledgeable in high value-added primary produce</td>
<td>Professional commercial funds suppliers and managers</td>
<td>The M&amp;A division of the parent company - a multi-national corporation</td>
</tr>
<tr>
<td>11</td>
<td>Key Investment Benefit Emphasised In The Plan (or Evaluation)</td>
<td>Competitive necessity</td>
<td>Market share in premium priced export niche</td>
<td>Ability to earn wholesale premiums</td>
<td>Due diligence issue identification and assessment</td>
</tr>
<tr>
<td>12</td>
<td>Key Investment Impediment</td>
<td>Current insolvency</td>
<td>(1) Rural crisis preconceptions (2) Current insolvency</td>
<td>(1) Funds supplier ignorance of the business (2) Cyclical downturn</td>
<td>Cost &amp; relevance of traditional due diligence investigations</td>
</tr>
<tr>
<td>13</td>
<td>Specific Economic Objective(s) Of The Plan (or Evaluation)</td>
<td>Sell the business for more than $700,000</td>
<td>Sell the business for more than $2.5 M.</td>
<td>(1) Lower cost of funds (2) Achieve funds under management targets</td>
<td>Evaluate an acquisition target under a range of alternative scenarios</td>
</tr>
<tr>
<td>14</td>
<td>Number Of Iterations</td>
<td>One</td>
<td>Three</td>
<td>Four</td>
<td>One</td>
</tr>
<tr>
<td>16</td>
<td>Document Length</td>
<td>75 pages</td>
<td>147 pages</td>
<td>134 pages</td>
<td>25 pages</td>
</tr>
</tbody>
</table>
Attributes 6 And 7: Variety Of Growth Impediments And Market Circumstances

As chapter four of this thesis made clear, the enhanced EBP paradigm has one central objective: the ability to re-set a venture from impeded growth and set or re-set it on the growth path. Thus, the enhanced EBP paradigm must possess a generic capacity to overcome growth impediments - its utility ought not to be limited to any specific set of growth-impeding circumstances.

Two of the research cases (B.E.S. Cups and Wirrilla) presented impeded growth in the form of businesses which were chronically insolvent for a diverse range of reasons including many which are likely to be important in a wide range of insolvency situations. One case (R&F) presented as its major growth impediment a factor of unique relevance to firms in the finance industry: the drying-up of a sufficient volume of competitively-priced wholesale debt funds. One case (ChildCo) demonstrated the utility of the enhanced EBP paradigm to a firm whose major growth impediment factor was market saturation - forcing it to look for an acquisition.

Overall, it is legitimate to claim that the case research demonstrated that the enhanced EBP paradigm possesses both a capacity to overcome a very wide variety of commonly-encountered growth impediments and a capacity to be adapted to deal with very unusual growth-impeding circumstances.

The paradigm has been demonstrated to possess very broad generic scope.

Attributes 8 And 9: Characteristics, Skills And Attitudes Of The Four Entrepreneurs

The case research design anticipated that a potential criticism of any study seeking to make claims for the viability of any applied method is always that the applier of the method counts more than the method itself. For a study of entrepreneurial ventures, this tends to boil down to the argument that if the venture is headed by an outstanding entrepreneur, then the successful un-impeding of growth is more a function of the inherent skills of that entrepreneur than of the particular methods or paradigms which that entrepreneur applies to the solution of the problem. To combat the ability of any such argument to undermine attribution of successful outcomes primarily to application of the enhanced EBP paradigm, the research design
deliberately sought to embrace ventures whose entrepreneurs covered a wide range of entrepreneurial skill ratings: from Wirrilla's David Power, rated low on entrepreneurial skills, to R&F's Richard Power (definitely no relation to David Power), rated very highly. Application of the enhanced EBP paradigm produced business plans which overcame many of the weaknesses of the less skilled entrepreneurs/managers (Barry White of B.E.S. Cups and David Power of Wirrilla) and augmented many of the strengths of the more skilled entrepreneur/managers (Ron Abel of ChildCo and Richard Power of R&F).

Moreover, the applied paradigm demonstrated success in the face of very different basic entrepreneurs' attitudes to the business-planning project confronted by each venture. David Power of Wirrilla was fundamentally hostile and contemptuous. Barry White of B.E.S. Cups was always hopeful but continually bemused. Ron Abel of ChildCo was deeply sceptical that his was a 'real' acquisition evaluation right up until his London presentation received a favourable reception. Until the first positive economic feedback resulting from the first edition of the R&F business plan, Richard Power's fundamental attitude could be classified as wariness. He was always concerned that the frank articulation of corporate objectives and plans might do more harm than good - especially if it fell into competitors' hands.

So, cross-comparison of the four cases reported in chapter six supports the contention that application of the tenets of the enhanced EBP paradigm were efficacious, independent of the presence or absence of latent entrepreneurial skill and even independent of the dominant attitude and frame of mind that the entrepreneur brought to the business planning task.

- **Attribute 10: Audience Focus Of An Entrepreneurial Business Plan**

Considered together, the four research cases demonstrate that application of the enhanced EBP paradigm can be directed to and successful with a wide variety of target audiences.

- **Attributes 11, 12 And 13: Key Investment Objectives, Claimed Benefits And Impediments**

The four cases covered a range of investment impediments, investment emphases and economic objectives diverse enough to support the contention that the capacity to be applied to a wide variety of investment
circumstances is a generic characteristic of the paradigm. These three findings are, of course, expected corollaries and sub-sets of the previous discovery (attribute 6) that the enhanced EBP paradigm can overcome a wide variety of growth-impeding factors.

- **Attributes 14 And 15: The Time Horizon**

The single greatest difficulty confronting the EBP researcher is time.

EBP case research is not like a survey where a great deal of data can be collected in a short space of time. It takes a long time to write an Entrepreneurial Business Plan - many months of close attention to many details. And it takes an even greater time - often measured in years - to reach a position where a dispassionate assessment of the successes and failures of the business plan can be achieved because a business plan is a document projecting a future which must be allowed to become a past before objective assessments can be rendered.

This final chapter of this research thesis was written in mid-1996. This is nearly eight years after the completion of the B.E.S. Cups business plan but less than one year after the completion of the latest iteration of the R&F business plan. However, the majority of the Entrepreneurial Business Planning from which major inferences have been drawn took place in 1992, thus creating a time horizon of between three and four years between plan execution and the drawing of conclusions. Moreover, the very fact that regular iterations of the R&F business plan are now a part of the programmed operations of that company is as valid - or more valid - a basis for the drawing of conclusions about the strengths and weaknesses of the original R&F business plan as is the fact that time has permitted closure of the other three cases.

Thus, three important time-related claims can be legitimately made about the case research reported in the previous chapter.

1. There has been sufficient time allowed for the measurement of objective economic results (the paradigm's value-added results measured in dollars) of each business plan.

2. There has been sufficient time for the dispassionate assessment of most of the non-economic benefits conveyed by each business plan.
There has been a sufficient number of iterations in two of the cases (three editions of the Wirrilla business plan and four editions of the R&F business plan) to combat any possible criticism that the plans used for research purposes were 'artificial', 'sterile' or 'one-off' creations, a-typical of business plans in the real world which have to be living documents, subject to constant up-dating.

- **Attribute 16: Document Length**

At just under 25 pages, the ChildCo acquisition evaluation was the shortest of the four EBP documents. At nearly 150 pages, the Wirrilla business plan was the longest. The difference is a clear measure that there is no such thing as an optimal length for an Entrepreneurial Business Plan. All four case documents were avidly read by their defined target audiences. All four documents achieved their objectives. Document length is a means to an end - not an end in itself.

- **Attribute Summary**

The word which best summarizes the case attributes covered by the research is *diversity*.

The research design encompassed sufficient diversity within and between the key attributes of the four selected cases that no key case attribute can be plausibly offered as an argument for limiting the applicability of the enhanced EBP paradigm to ventures with a narrow range of mutual characteristics. Cross case analysis supports the proposition that the enhanced EBP paradigm has the potential to be successfully applied to a very wide range of ventures suffering from a very wide range of growth impediment factors.

### 7.1.2 CROSS-CASE COMPARISON OF FACTORS APPEALING TO INVESTORS

- **The Three 'Cs' (Paradigm Law 6) Revisited**

The most useful tool for detecting patterns (or, just as importantly, the *lack* of patterns) among factors appealing to potential investors in the four cases reported in this research comes from the heart of the enhanced EBP paradigm itself. It is paradigm law six (see section 4.5, above) which states:
'Law 6. Distinguish the venture's business concept, distinctive competencies and sustainable competitive advantages.'

These 'three Cs' - business CONCEPT, distinctive COMPETENCY and sustainable COMPETITIVE advantage - form the trinity of message content mandates specified by the enhanced EBP paradigm and are thus three variables which will heavily influence the investment decision of a prospective investor.

- **There Are No Patterns Of Business Concept Or Distinctive Competency**

While the research reported in chapter six adequately demonstrated that all cases involved clear articulation of business concept and distinctive competency, there is no pattern between cases with respect to any generic investor appeal characteristics linking these key Entrepreneurial Business Planning variables. By their very nature, business concept and distinctive competency run counter to the very notion of pattern because what any investor is looking for with respect to these two variables is always the different - not the familiar. By definition, a competency would not be distinctive if every firm in the industry possessed it. And the essence of a clearly defined business concept is its combination of clarity and differentiation from other business philosophies.

Neither the business concepts and distinctive competencies of the research case ventures nor the criteria of prospective venture investors with respect to these variables yield any patterns.

- **There Is A Distinctive Pattern Of Competitive Advantage**

In contrast, in the area of competitive advantage, there is a clearly discernible pattern among the four ventures and their prospective investors.

All potential investors who scrutinised the four case study documents, revealed a strong attraction for a situation common to all cases. In every case, the potential investee business had a generic *market-situational* competence: it was faced with a demonstrable prospect of gaining quick growth in the near future by 'stealing' market share. The word 'stealing' implies the ability to take share from another competitor in a way 'easier
than normal' because the competitor about to lose share was circumstantially handicapped and unable or unwilling to respond to an initiative proposed by the case protagonist.

In the B.E.S. case, impending legislation was about to eliminate a competitor. The market-dominating form of disposable plastic cup manufacture (used, inter alia, by the McDonalds fast food chain and whose major manufacturer was Hygienic Lily) used environmentally damaging chloro-fluorocarbons (CFCs) as part of their manufacturing process. As of 1989, these products would be banned under Commonwealth law. This, of course, created an obvious opportunity for B.E.S. Cups 'clean foam' products to gain high volumes of market share in a very short time frame.

In the Wirrilla case, Australia's dominance as the major asparagus supplier to Japan in the northern-hemisphere off season (over 50% of the seasonal market) and Wirrilla's position as the largest single supplier to that seasonal market, combined with its very high brand recognition, placed it in a position to seize market share if it could expand production while maintaining quality.

In the R&F case, the imminent withdrawal from the industry of hitherto leading players was about to place thirty percent of existing sales aid finance market share 'up for grabs' among existing market players and R&F had a well-articulated strategy for seizing the opportunity thus created.

In the Childco case, the pattern works in the negative. ChildCo's existing market was demonstrably very stable, subject neither to growth nor opportunities for seizing market share. It was this very fact which led Mr Abel on his search for an acquisition candidate in the first place.

- Does This Pattern Strengthen Or Weaken Generalisability Of The Applicability Of The Enhanced EBP Paradigm?

The detected pattern neither strengthens nor weakens ability to generalise the applicability of the enhanced EBP paradigm.

In case research, cross-case analysis involves a rigorous search for patterns. But it is one thing to discover that a pattern exists and quite another to correctly infer what it may signify. Specifically, in this research, should one
infer from the detection of the pattern the common investor appeal of the possibility of quick gains in market share that either:
(1) such specific potential gains are a *sine qua non* of investor appeal? Or,
(2) their commonality among the studied cases limits the generalisability of case findings to ventures which possess this market characteristic?

Research results demonstrate that the answer is an obvious and uncontroversial no to both questions.

The detected pattern signifies nothing more specific than that investors are excited by the prospect of their potential investment growing quickly, and that a business plan must therefore provide tangible and convincing evidence of the venture's rapid growth prospects (whether by capture of part of a competitor's existing market share or by any other method - for instance, growing the market by lowering costs and thus increasing access).

Accordingly, the detected pattern does not limit the extrapolation of research results beyond the obvious generalisation that the enhanced EBP paradigm can only be applied successfully to ventures which can hope to excite investors by the demonstrable possibility of rapid growth.

### 7.1.3 The Key Issues for Generalising from Case Research Results

Yin (1989) concludes his treatise on the case research method by emphasising the importance for the generalisability of results of three things:

- pattern matching;
- explanation building;
- time series analysis.

In sharp contrast with the pattern-matching ideal of case research, are several of Bygrave and Hofer's (1991: 17) nine parameters of an entrepreneurial event:¹

(1) It is initiated by an act of human volition.
(2) It occurs at the level of the individual firm.
(3) It involves a change of state.
(4) It involves a discontinuity.

¹ These parameters were previously cited on page 8 of this thesis.
(5) It is a holistic process.
(6) It is a dynamic process.
(7) It is unique.
(8) It involves numerous antecedent variables.
(9) Its outcomes are extremely sensitive to initial conditions of these variables.

Parameters (2), (4), (7) and (9) indicating the importance of individuality, discontinuity, uniqueness and sensitivity to initial conditions thereby also indicate that case research concerning entrepreneurship is likely, by the very nature of its subject matter, to involve a relatively less important role for pattern matching than case research in many other fields.

This was confirmed by the example of the pattern of market circumstances pertaining to the four cases, discussed in the previous subsection. The pattern was detected but did not signify a great deal. Section 7.1, above, concluded that it was not a pattern _matching_, _per se_, which lead to strong grounds for generalisability for this research. It was the opposite, pattern _diversity_; the sheer range and variety of circumstances revealed by the case attribute matrix provide the basis for generalisability.

Fully comporting with Yin's prescriptions however, explanation building is vitally important to case research in the field of entrepreneurship. But this task has been performed _a priori_, in chapter four, above: the chapter which developed the enhanced EBP paradigm in the first place. The role of the four cases was always the adjunct activity of testing and refining: not the primary role of building.

Finally, the analytical problems of time as it applies to case research of Entrepreneurial Business Planning have already been discussed in section 7.1.1, above.

7.1.4 CLAIMED APPLICABILITY OF THE ENHANCED EBP PARADIGM: EXTENT, LIMITS AND SIGNIFICANCE

• Extent

Cross-case analysis supports the contention that the enhanced paradigm of Entrepreneurial Business Planning is an efficacious method for removing a very wide range of growth impediments and can be applied to a very wide
range of ventures situated across a broad spectrum of the business life cycle - from startups to relatively mature ventures. Instead of defining the limits of EBP applicability, the startup business situation can now be seen to be merely one among an infinity of impeded growth situations. It is in the vast - virtually limitless - arena where battle is done to overcome impeded growth that the tenets and techniques provided by the enhanced paradigm of Entrepreneurial Business Planning have been shown to be versatile weapons.

In summary, as a result of the research reported in this dissertation, Entrepreneurial Business Planning may be regarded as a distinct grouping of integrated techniques amounting to a managerial technology for removing impediments to business growth by attracting necessary investments on behalf of articulated strategies. Entrepreneurial Business Planning has emerged from vague definition amid the narrow contextual confines of a startup venture seeking venture capital to precise definition in a far broader context as a generic technology for the removal of impediments to business growth, wherever and however they occur.

- Limits

On the evidence and inference presented in this dissertation it is prudent to limit the applicability claim, at this stage of research, to ventures operating for profit in the private sector.²

- Significance Of The Research

The research reported in this dissertation discovered, formalised and demonstrated a broad range of applicability of an enhanced Entrepreneurial Business Planning paradigm. Four points encapsulate the most significant results of the research to the community of entrepreneurship scholars and practitioners and beyond them, to the managerial community at large.

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² It will be remembered that the grounded theory data base involved in the development of the enhanced EBP paradigm included field observations, cases and theory building from the government and non-profit (philanthropic) sectors of the economy. See chapter four, passim, above and appendix A-2. The author is strongly inclined in favour of believing that the enhanced EBP paradigm is just as relevant to public sector and non-profit organisations as it is to profit-oriented firms and intends, subsequent to this dissertation, to conduct case research to test the proposition. However, since all four cases examined in this thesis concerned firms operating for profit in the private sector, it is sensible to limit the claims made for the applicability of the enhanced EBP paradigm to for-profit firms until further research demonstrates direct pertinence to government and non-profit cases.
(1)  It Provides A Basis For Systematic Inquiry In The Field Of Entrepreneurial Business Planning And A Template For Quality Assessment Of Entrepreneurial Business Plans

The major generic utility of the findings to both entrepreneurship researchers and practising entrepreneurs is that there now exists a basis for systematic comparative inquiry and a template for quality assessment of the Entrepreneurial Business Planning process and its outputs. Prior to this research, assessment of the quality of any given Entrepreneurial Business Plan was largely a matter of subjective judgement made according to criteria which only the assessor might hold. Moreover, the absence of any precise definitions of boundaries, laws, success rules and appropriate instrumentation meant that the establishment of performance benchmarks was impossible. This, in turn, has meant that objective comparisons between business plans - especially relative comparisons of quality and utility - were not possible. The established existence and demonstrated applicability of the enhanced EBP paradigm offers the potential to change this highly undesirable situation.

The enhanced EBP paradigm offers the possibility to pioneer a new sub-field of entrepreneurship research - the systematic study of Entrepreneurial Business Planning - and provide the practising entrepreneur with a system for benchmarking and quality control, two potent managerial weapons which have hitherto been totally absent from the entrepreneur's arsenal in this crucial operational area.

(2)  It Redresses The Imbalance Between Research And Teaching In An Important Field Of The Entrepreneurship Discipline

The very beginning of this dissertation (pages 3 and 4, above) pointed out an anomaly between teaching and research in the field of Entrepreneurial Business Planning. At the very heart of all the formal teaching of entrepreneurship that exists in the world, is a nearly universal emphasis on the importance of teaching a student how to create an Entrepreneurial Business Plan (EBP). In contrast to the attention given to it in teaching entrepreneurship, the EBP field has received almost no formal research attention. Until the advent of the research contained in this dissertation, what had not been established or even enquired into is whether the EBP literature contained, at its essence, a set of core Entrepreneurial Business
Planning prescriptions which merited the title 'paradigm' and, if so, some assessment of the strengths and weaknesses of that paradigm. It was argued at the outset of this research that the discovery and constitution of an EBP paradigm was a very important task. If there were no paradigm and any EBP prescription were held to be as good as any other, then the field and by implication the 'discipline' which contains it could not really be called a social science 'field' and a social science 'discipline' at all (in the sense of being valid spheres for the attention of a scientific community) but merely labels for inconclusive discourse.

The imbalance has been substantially redressed and the possibility for well-structured research into Entrepreneurial Business Planning has been established.

(3) **It Extends The Domain, Credibility and Utility Of Entrepreneurship As A Discipline**

What is beneficial for one organ, benefits the whole body. The ability to apply the enhanced EBP paradigm and so employ Entrepreneurial Business Planning as a managerial problem-solving tool in a vast array of business situations which may previously have employed non-entrepreneurial models and techniques, significantly extends both the domain and credibility of entrepreneurship as a distinct - and distinctly useful - social science discipline. The domain and utility extensions are self-evident. The extension of credibility can be illustrated by pertinent example.

Given the importance of entrepreneurship theory and practice which has been developed in the context of established venture capital markets, it is possible for entrepreneurship scholars and researchers to forget that there are many countries in the world which lack a mature venture capital market or any well-defined apparatus pertaining to the market management of private equity businesses. One example - the absence of unlisted equity markets and the temporary but virtually total collapse of Venture Capital in Australia in the wake of the 1987 stockmarket collapse - will be cited in section 7.2, below. To take another example, why should a Vietnamese manager be interested in Entrepreneurial Business Planning if it were an activity limited to startup businesses seeking venture capital? The priority for that country (in early 1996) is the conversion of existing state-run enterprises to a market focus in a financial environment totally lacking institutionalised private equity transfer mechanisms. As it turns
out, Entrepreneurial Business Planning can be demonstrated to be a very credible and useful tool for this purpose.\(^3\)

The general point is this. The credibility of Entrepreneurial Business Planning and the discipline of which it is a sub-set is greatly enhanced if the activity can be shown to have relevance to environments where the apparatus of venture investing is primitive as well as to environments where such apparatus is sophisticated.

This research has performed that task.

\(4\) \textit{It Is The Potential Generator Of Many Practical Analytical Constructs And Corollary Theory In A Wide Variety Of Managerial Fields}

Finally, the enhanced EBP paradigm is not only a complex analytical construct in its own right, it can serve as the generator of other analytical constructs whose utility may apply both within and beyond the boundaries of the discipline of entrepreneurship.

One illustration of the enhanced EBP paradigm's ability to act as an 'analytical construct generator' has already been furnished within the bounds of this thesis. In section 4.4.6 (page 116 to 119, above) the ECIPP method of dynamic due diligence was developed as a detailed regime for implementing several of the most important laws and success rules of the enhanced EBP paradigm. Section 7.3, below, will demonstrate that this analytical construct conveys useful theoretical and practical insights into the field of mergers and acquisitions - a field hitherto given its closest scrutiny by the disciplines of economics and finance.

Another illustration will be provided in section 7.2, below, where a revisiting of the Wirrilla case generates two analytical constructs - the 'ersatz venture capital matrix' and the 'deal zone matrix' which can be shown to have generic relevance to the field of insolvency practice and for managers faced with the task of executing a turnaround or sale of business which might otherwise be forced into bankruptcy. These constructs help to inform an important sub-set of the entrepreneurship discipline, a field which may be labelled, 'venture renaissance'.

\(^3\) In March of 1996, in both Hanoi and Ho Chi Minh City the author, as part of a Swinburne University Overseas Education Program team, was privileged to work, first hand, with six groups of Vietnamese managers and educators involved in projects aimed at entrepreneurially rejuvenating formerly state-run enterprises.
7.1.5 DEVELOPING COROLLARY THEORY AND PRACTICE.
TWO ILLUSTRATIVE AREAS: (1) VENTURE RENAISSANCE
AND (2) MERGERS & ACQUISITIONS

The outcome of all four significant implications of the discovery and testing
of the enhanced EBP paradigm - just discussed in the preceding section - is,
of course, the potential to develop corollary theory and practice as a means
both of adding to theoretical knowledge and solving an ever-expanding
array of pressing real-world problems.

For this thesis, the development of two illustrations of corollary theory and
practice will 'square the circle' as it were, by providing perhaps the best
concluding argument in favour of the proposition that the enhanced EBP
paradigm has substantial general utility. Support for the proposition can be
furnished by concrete examples which illustrate the enhanced paradigm's
utility to theorists and practitioners in very specific but very different - i.e.
'widely spaced' - areas.

As indicated in the previous section, the thesis will conclude by providing
two such illustrations: first, in the area of venture renaissance and second,
in the area of mergers and acquisitions.

7.2 VENTURE RENAISSANCE: FROM 'STANDARD'
TURNArounds TO ERSATZ VENTURE CAPITAL 4

7.2.1 THE MEANING AND PURPOSE OF THE TERM 'VENTURE RENAISSANCE'

'Renaissance' in its simplest denotation means 're-birth'. Thus, as a
technical term within the entrepreneurship discipline, it is a useful word
for distinguishing between two major categories of ventures: new ventures
(i.e. those that are 'yet to be born') and existing ventures requiring an
injection of managed innovation (i.e. ventures that are about to be re-born).
Much of the motivation for the research reported in this dissertation came
from a belief that entrepreneurship theory - especially with respect to
Entrepreneurial Business Planning - contains an over-emphasis on
startups. There is insufficient recognition that an attempt to substantially
change the direction and destiny of an existing organisation - to give it a

4 Ersatz is a German word denoting 'replacement'. The opportunity for creating an 'ersatz
venture capital market' arises in the venture renaissance context and will be discussed in
section 7.2.4, below.
new beginning or 're-birth' - can amount to a form of entrepreneurship and can benefit from the body of knowledge that entrepreneurship as a discipline has accumulated. Concurrently, the research that informs and feeds that accumulated body of knowledge known as entrepreneurship ought to give greater attention than it does to the fact that 'new venturing' can mean 're-birth'ing existing ventures just as much as it can mean giving a first birth to a prospective venture. Both situations require entrepreneurship as the midwife.

So, in a precisely denotative sense, the author employs the term 'venture renaissance' to mean 'the use of entrepreneurship to give re-birth to an existing organisation'. But, the term has also been coined, deliberately, to generate a profusion of connotations, too numerous and diverse ever to be fully articulated but all stemming from established connotations associated with the Renaissance as an historical period of extraordinary intellectual and physical vivacity. No one can agree upon a precise dateline for the start and finish of the historical period known as the Renaissance. Yet all agree that Michelangelo and Leonardo and legions of explosively creative people were a vital part of it; as was an accelerating spirit of innovation; as was vigorous expansion of commercial enterprise and a passion for new knowledge combined with a deep respect for the re-discovered knowledge of classical antiquity.

As it is for the connotations of 'Renaissance' as a term to describe the revival of art and letters under the influence of classical models in the fourteenth to sixteenth centuries, so let it be, in the late twentieth century, with 'venture renaissance' as a term loaded with connotations of business revival through creative and innovative application of the established and emerging knowledge in the field of entrepreneurship. The discipline needs the term and its teeming connotations for the simple reason that the health of any economy is as much or more a matter of preventing the deaths of ailing but potentially vigorous enterprises as it is of giving life to entirely new ventures.

7.2.2 THE CONTEXT OF THE WIRRILLA CASE RE-VISITED

The Wirrilla case was reported on pages 175 to 202, above, and the Wirrilla business plan is reproduced in Volume II as Case C-3. Section 7.2 reports that further focused analysis of the specific case has revealed some valuable generic insights about the phenomenon of venture renaissance.
• **The Dollars**

In December, 1991, when the first iteration of the business plan was completed, Wirrilla owed Elders Rural Finance very close to $10 million but the bedrock situation facing Wirrilla and Elders Rural Finance in December 1991 (just before release of the business plan and marketing strategy) was a firesale, (based on current, minimum, raw asset valuations) of $2.5 million. The plan's argument (based on the future potential of a dynamic going concern) placed a negotiating opening value of $7.5 million on the restructured Wirrilla. The offer did not (as all previous offers did) include Mr Power's homestead block of 300-hectares (750-acres), conservatively valued at $500,000. So, this amount could and should be added to any price eventually achieved to calculate Elders Rural Finance's actual yield from the sale.5

Given that the loan was non-performing and the firesale price was accepted by the board just prior to commissioning of the Entrepreneurial Business Planning project, the accepted calculus of value-added attributable to the Entrepreneurial Business Planning would be simple. It would be the actual achieved price plus $500,000 (representing the value of the homestead price) minus the firesale price of $2,500,000.6

• **Macro Economic And Financial Legacy Of The 1980s**

The *Australian Financial Review*, October 4, 1991, page 55, contains an incisive analysis by Michael Stutchbury of the combination of factors which, during the 1980s, caused the 'pain in the bush' - a phrase which encapsulates the rural decline which impacted so heavily on Australian primary producers. Stutchbury's summary stressed that the combination of a continued cost-price squeeze, and the effects of overgearing during the mid and late 1980s saw aggregate terms of trade for farmers plummet from an index of 250 in 1961 to 150 in 1981 to under 100 in 1991. The net value of aggregate farm production was then less than 2 billion (1991) dollars. It was nearly 12.5 billion dollars in 1971.

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5 Elders originally intended, subject to performance, to let Mr Power 're-earn' his family home - i.e. buy it back from them.

6 In fact, page 203, above shows an advertisement indicating that the Elders' Board was willing to accept between two and three million dollars as full and complete purchase price for all assets associated with Wirrilla. So, this calculus (agreed between the Board and the author) may underestimate any premium attributable to the use of the enhanced EBP paradigm by as much as $500,000.
A key passage from Stutchbury’s analysis was particularly germane to Wirrilla’s contemporary circumstances. He writes:

"... farmers are now paying the price for the increased debt they incurred from a deregulated financial sector during the good times of the late 1980s. As commodity prices and farm incomes collapsed, debt servicing ratios jumped. ABARE\(^7\) estimates that sheep specialists will use 89% of their income to service debt in 1991-92 ...."

It is in this context that both Wirrilla’s similarities with and differences from the general primary production sector could best be perceived.

Wirrilla was certainly burdened with a debt servicing ratio that was beyond its current capacity. But, paradoxically, this did not arise because prices for its produce collapsed. Wirrilla (and in this regard one must consider Wirrilla as the combination of David Power, proprietor and Elders Finance, lender) embarked on a course of ambitious borrowing/lending precisely because premium asparagus prices seemed likely to remain immune from the general trend of falling agricultural prices. The outstanding operating results of the past three asparagus seasons\(^8\) were eloquent evidence of this fact. Whatever else may be said about him, David Power, was a committed to innovation and Elders Finance was committed to supporting him. The borrowing/lending on which they embarked went into research, development, experimentation with alternative harvesting methods, alternative rotational crops, innovative systems etc. In short, the borrowing/lending went into a quest for excellence.

Excellence was achieved, but in purely financial terms, the price paid can, with hindsight, be seen to have been too high. The result was that the business could now offer an investor a chance to reap the benefits of excellence without having to pay for the ride on the learning curve which produced it. The business plan which formed the basis of the offer for sale of the business looked to the future not the past and treated all past financing costs as sunk costs.

\(^7\) ABARE is an acronym for the Australian Bureau of Agricultural Research.

\(^8\) Season 1991, as the case study reported, exceeded all expectations and net profits from operations lowered Wirrilla’s liabilities by over $1 million. This result (not incorporated in the business plan) made the plan’s already conservatively-based financial projections even more conservative and credible.
Given this, the current marketing environment which faced an all-equity financed Wirrilla was very healthy.

7.2.3 VENTURE RENAISSANCE IN A HOSTILE ENVIRONMENT

- 'Venture Renaissance' Implies Much More Than 'Turnaround'

On page 274, above, the author defined the term 'venture renaissance' to mean 'the use of entrepreneurship to give re-birth to an existing organisation'. Traditional management theory and practice uses the word 'turnaround' as a descriptor of a business in financial difficulties on behalf of which an attempt is being made to return it to financial health. Thus, a common meeting ground between the applied theory of Entrepreneurial Business Planning and traditional management theory and practice is likely to be in the 'turnaround' area9 - usually the province of insolvency practitioners. To the person trained in traditional management education, what was done in the Wirrilla case might superficially appear as nothing more than a 'turnaround using somewhat different methods'.

However, there is a need to emphasise that the notion of 'venture renaissance' implies substantially more than what is usually conveyed by the term 'turnaround'.

The turnaround objective may well be limited to 'getting the figures looking good' or 'stopping the bleeding'. And turnaround methods may well be limited to draconian short-term measures such as drastic cost-cutting and curtailment of activities. In the hands of an insolvency practitioner, a turnaround is nearly always limited to the use of 'tried and true' remedies to achieve survival. In the hands of an Entrepreneurial Business Planner, the venture renaissance process, always seeks innovative ways to go beyond survival to a new conception of the venture as the basis for an achievable vision of profitable growth: a vision capable of attracting the investment necessary to make it happen.

Thus, there is a need for care: 'venture renaissance' and 'turnaround' are not synonymous.

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9 The only writer this author has encountered who overtly recognizes the potential of Entrepreneurial Business Planning to gain a wider relevance than it currently enjoys in mainstream management theory is Timmons who discusses the role and objectives of a 'turnaround plan' (Timmons, 1990: 537-542).
• An Example Of The Parlous State Of Non-Institutional Private Equity Markets Outside The United States And Western Europe: The Failure Of Australia To Develop Unlisted Equity Markets

Throughout Australia's history, there has never been a structured, efficient market for unlisted equity - shares of smaller companies not listed on the main board of the stock exchange (Hartwell and Lane: 1989). The only structured and sustained attempt to create one - 'The Second Board' - was an abject failure (Hindle and Diemont: 1992).

Not only are there no defined markets for small business or new business equity, but the procedures for marketing and selling small businesses are inadequate. The 'standard' techniques for selling an unlisted business as a going concern are an auction (for rural businesses) and the 'information memorandum procedure' for non-rural businesses. This features prosaic advertising in defined zones of the business sections of newspapers and preparation of a stilted, ritualized, short document called an 'information memorandum' which is designed to highlight only the positive aspects of the business, rarely includes more than abbreviated historic data and is really only useful to businesses with a track record of sustained past profits. The accountants who prepare these information memoranda may or may not have financial and business planning skills but, if they do, they keep the fact well hidden. A 1991 survey of the NSW accounting fraternity indicated that over 61% of hours spent in CPA accounting practices were spent on taxation work whereas less than 4% of practice time went into financial planning. (Laing and Andrew: 1991).

Things are even worse for businesses in difficulty - whether through debt wrecking or for any other reason. The standard practice for dealing with insolvent businesses in Australia involves no strategic insight, utilizes very prosaic marketing techniques and makes no attempt to forecast a brighter financial future.

• The Problem Becomes An Opportunity For Financial Innovation

The 'Information Memorandum Mentality' - the antithesis of the Entrepreneurial Business Planning ethos pervading this thesis - is the major weakness in the Australian 'non-market' for selling equity in unlisted businesses. Trying to sell small business equity on the basis of future earnings potential is both procedurally and culturally alien to the
Conclusions And Corollaries: Research Implications And Applications

Australian business selling arena and the fraternity of accountants in public practice. An attempt to sell insolvent debt-wrecks on the basis of future earnings potential would be regarded by many practitioners in the field as radical to the point of the bizarre.

In this environment, it seemed to many in the early 1990s that a large number of debt wrecks potentially worth saving simply could not be saved. But the Wirrolla case illustrated that they could be.

The essence of creative innovation is conversion of a problem into an opportunity. Since the prime criteria used by investors in unlisted equity are financial, the problem of debt wrecks presented an opportunity for financial innovation. The following subsections of section 7.2 argue that the adaptation of the enhanced Entrepreneurial Business Planning paradigm, which proved so efficacious in the Wirrolla case, had and has much wider relevance. It will be argued that application of the enhanced EBP paradigm the problems of venture renaissance - of which Wirrolla was but one successful example - had the potential to be the salvation of many debt wrecks aimlessly adrift in the Australian economy in the early 1990s and threatened with complete destruction on the harsh rocks of inflexible and inadequate business practices. Unfortunately, by the mid 1990s that destruction was largely complete and this particular window of opportunity (potentially worth in excess of $150 million as section 7.2.7, below, will show) has closed. However, the occurrence of similar large-scale opportunities can be shown to be a cyclical phenomenon common to all developed economies. So, similar opportunities will arise again.

7.2.4 A CYCLICAL OPPORTUNITY: ERSATZ VENTURE CAPITAL

In the years between the stock market collapse of October 1987 and approximately mid-1992, Australia's economic circumstances created a circumstantially defined field for the adaptation and application of entrepreneurial theory to debt-wrecked businesses. The Wirrolla adaptation of the enhanced Entrepreneurial Business Planning paradigm took place in the context of what may be called the ersatz venture capital opportunity. A formal opportunity statement of it is set out, in indented format, below.

Cyclically, economies will suffer crises which engender the phenomenon of 'debt wrecking' - the situation characterised by major financial institutions suffering a high proportion of non-
performing loans in their portfolios resulting from over-geared businesses. The classic debt wrecked business is profitable to its earnings-before-interest-and-tax (EBIT) line but is over-borrowed to such an extent that it cannot meet its interest payments and accumulating unpaid interest makes it chronically insolvent. A combination of the enhanced paradigm of Entrepreneurial Business Planning and carefully targeted marketing can succeed in attracting new equity investors to the initial salvation and subsequent profitable development of debt-wrecked businesses where existing financial practices (marketing of unlisted equities and insolvency practice) have failed. For debt-wrecks with certain key characteristics\(^{10}\), it is possible to employ the enhanced EBP paradigm to devise a new strategy and capital structure, and incorporate them in a plan which can position the restructured enterprise as an attractive investment, analogous to a startup venture but with much lower associated risks. The combination of high potential rates of return and proven productive performance (rather than the 'blue sky' of startups) has the potential to attract investors whose risk aversion would normally preclude their participation in either 'traditional' venture capital or acquisition of unreconstructed debt wrecks. The market thus created between interests associated with the restructured former debt-wrecks (sellers) and potential investors (buyers/capital suppliers) may be called an 'ersatz venture capital market'. The development and operation of the ersatz venture capital market has potential to make a major contribution to the national economy in which it operates.

'Erzsatz' is a German word meaning 'replacement'. Specific national market circumstances, such as Australia's debt wreck littered economy of the early 1990s, make it imperative that many entrepreneurship constructs derived in the context of an assumption of the existence of well-developed formal private equity markets be 'replaced' - in the sense of 'extended' - by adaptations of entrepreneurial theory which are relevant to prevailing economic contingencies. The nascent Australian formal venture capital market was stagnant in the early 1990s. It was worth negligible dollars. As will be demonstrated (section 7.2.2, below), the ersatz venture capital market was potentially worth many millions of dollars.

\(^{10}\) See, below, section 7.2.5.
7.2.5 CRITERIA FOR SELECTING ERSATZ VENTURE CAPITAL CANDIDATES

Traditional entrepreneurial theory and practice place great emphasis on the screening process before any startup opportunity is considered worthy of the major effort which goes into preparing a business plan capable of securing traditional venture capital (Timmons 1990: Part 1, especially Chapter 4). Similarly, there is a need to distinguish suitable from unsuitable candidates for ersatz venture capital treatment. Only a minority of all debt wrecks will be suitable for and worthy of the detailed Entrepreneurial Business Planning treatment recommended by the enhanced paradigm and accorded to Wirrilla. Five key criteria are postulated for the selection of ersatz venture capital candidates.

- The candidate business must have a sustainable competitive advantage (SCA) capable of constituting a unique selling proposition (USP) to a definable class of anticipated prospective investors.

- There must be strong evidence that earnings before interest and tax (EBIT) have passed a point of inflection from the introductory to the growth phase of the business's life cycle and that high growth in earnings is a strong possibility after capital restructuring.\(^{11}\)

- If effective operation of the enterprise involves significant technology transfer to the new owners, there must be an ability to retain strong commitment by the existing owner(s) of the business to stay on long enough after the sale to enable the new owner(s) to master all relevant business operations. Ideally, a continued, if diminished, role for the existing owner(s) should be built into the plan, possibly involving some retention of equity.

- The lender must be willing to accept a reasonable degree of loss on its outstanding loans.

- The owner(s) and the lender must enjoy harmonious relations and share commitment to the business planning strategy.

Wirrilla comported with all these prescriptions. In particular exhibit 7.2-1, combining historical accounting data and business plan projections, clearly indicates that Wirrilla exhibited almost textbook characteristics of a business

\(^{11}\) See, below, exhibit 7.1.
emerging from the introductory to the growth phase of its business life cycle curve.

This is the quintessential hallmark of the ersatz venture capital 'candidate'.

EXHIBIT 7.2-1
WIRRILLA BUSINESS LIFECYCLE CURVE

Sources: Wirrilla Taxation Records And Business Plan

7.2.6 TWO GENERALISABLE ANALYTICAL CONSTRUCTS
USEFUL IN VENTURE RENAISSANCE

- First Analytical Construct: Ersatz Venture Capital Zone Matrix

The first analytical construct may be called the ersatz venture capital zone matrix. Assuming sale of 100% of the equity and achievement of the projections made in the Entrepreneurial Business Plan, the EVC zone matrix shows both (1) the various internal rates of return on investment which would accrue to a purchaser of the business at different purchasing prices and (2) the premium over firesale that various sale prices would represent to the sellers of the business.

Wirrilla's EVC zone matrix - Exhibit 7.2-2 - employs the simple calculus provided in section 7.2.1, to show the yields to both buyer and seller at various sale prices and the 'zone of ersatz venture capital' for this particular business.

The zone lies between the firesale price (less the $500,000 value of the retained homestead block) and the opening price asked. The opening price
was based on evidence that a return of 15% compound was the minimum likely to be acceptable to prospective investors identified in the marketing analysis conducted prior to advertising the business for sale.

**EXHIBIT 7.2-2**

**WIRRILLA’S ZONE OF ERSATZ VENTURE CAPITAL**

<table>
<thead>
<tr>
<th>BUYER’S PERSPECTIVE</th>
<th>SELLER’S PERSPECTIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ERSATZ</td>
</tr>
<tr>
<td>(EQUITY OUTLAY)</td>
<td>($ millions)</td>
</tr>
<tr>
<td>10.0</td>
<td>8.41%</td>
</tr>
<tr>
<td>9.5</td>
<td>9.54%</td>
</tr>
<tr>
<td>9.0</td>
<td>10.72%</td>
</tr>
<tr>
<td>8.5</td>
<td>12.00%</td>
</tr>
<tr>
<td>8.0</td>
<td>13.65%</td>
</tr>
<tr>
<td>7.5</td>
<td>14.84%</td>
</tr>
<tr>
<td>7.0</td>
<td>16.43%</td>
</tr>
<tr>
<td>6.5</td>
<td>18.17%</td>
</tr>
<tr>
<td>6.0</td>
<td>20.08%</td>
</tr>
<tr>
<td>5.5</td>
<td>22.19%</td>
</tr>
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<td>24.54%</td>
</tr>
<tr>
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<td>27.19%</td>
</tr>
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<td>30.22%</td>
</tr>
<tr>
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<td>43.06%</td>
</tr>
<tr>
<td>2.0</td>
<td>49.59%</td>
</tr>
</tbody>
</table>

Source: Wirrilla Business Plan Financial Projections

As prices approach firesale, estimated returns to the ersatz venture capitalist (purchaser of the business) rival those rates sought by the 'traditional' venture capitalist. Consider the implication at the extreme. If the business sold for $2 million - a figure which Elders Rural Finance might have accepted in its most extreme 'firesale mood' - the ersatz venture capitalist’s internal compound rate of return is estimated at nearly 50%. But the business plan’s demonstration of future potential removed Elders Rural Finance from ‘firesale mood’. Any offer less than $4.5 million would simply not be entertained: as the case reported, Elders Rural Finance decided that if no offer exceeded this figure, it would trade on as de jure rather than de facto owner of Wirrilla. Already this represented a significant achievement for both the enhanced EBP paradigm and the contemporary Australian economy. One less rural business was headed for oblivion. A vital toehold in an important export market had been retained.

The key thing for both the financial analyst and hard-headed trader, though, is that the theoretical 'zone of ersatz venture capital' gives way to the practical 'deal zone' which may be represented by a second analytical construct, the deal zone matrix.
The deal zone matrix indicated that the financial benefit for Elders Rural Finance would be an ersatz venture capital premium (over firesale price) of between $2.5 and $5.5 million. The buyer would acquire a profitable, high-growth enterprise. Mr Power, the entrepreneur, had the opportunity to keep his home and gainful employment for himself and his workers. Australia stood to retain a significant and growing presence in a valuable export market. A firesale would have eliminated all these benefits to all parties and seen the land revert to pasture for agistment. As the Wirrilla case reported, the eventual sale price was the equivalent of a then present value of $6.5 million - towards the high end of the projected deal zone for Elders but still indicating for the buyer a prospective internal rate of return on investment over only five years exceeding 18%. The deal zone matrix is a useful indicator of mutual benefits.

**Second Analytical Construct: Deal Zone Matrix**

**EXHIBIT 7.2-3**

**WIRRILLA'S DEAL ZONE**

<table>
<thead>
<tr>
<th>BUYER'S PERSPECTIVE</th>
<th>SELLER'S PERSPECTIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQUITY OUTLAY ($ millions)</td>
<td>RETURN ON EQUITY (IRR %)</td>
</tr>
<tr>
<td>7.5</td>
<td>14.84%</td>
</tr>
<tr>
<td>7.0</td>
<td>16.43%</td>
</tr>
<tr>
<td>6.5</td>
<td>18.17%</td>
</tr>
<tr>
<td>6.0</td>
<td>20.08%</td>
</tr>
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<td>5.5</td>
<td>22.19%</td>
</tr>
<tr>
<td>5.0</td>
<td>24.54%</td>
</tr>
<tr>
<td>4.5</td>
<td>27.19%</td>
</tr>
</tbody>
</table>

Source: Wirrilla Business Plan Financial Projections

**General Implications**

The consummation of the Wirrilla deal was a significant achievement for a business sale method which was regarded by members of Elders Rural Finance's senior management as highly unlikely to be worth the time delay between its implementation, its 'inevitable' failure and Elders Rural Finance's acquiescence in an 'inevitable' firesale.

But, without the creation of the two analytical constructs just presented, it is unlikely that the deal would ever have gone ahead. As the case reported, initial negotiations for purchase broke down in mid-1992 and there was
some feeling on the Board that the EBP method had thus failed and that the Board should revert to a firesale and 'have done with it'. The two analytical constructs - EVC zone matrix and deal zone matrix - played a significant part in stiffening the resolve of the Elders Board to persevere with the venture through 1992 by putting in a manager to implement the business plan. The constructs enabled the Board to see and believe that the venture could provide substantial value (in the form of return on investment) to a purchaser at a price substantially in excess of the firesale minimum.

With appropriate adjustments for circumstances, the two analytical constructs are generalisable to virtually any situation where a venture is offering equity for sale on the basis of projected future performance. They, and the context from which they emerged - the ersatz venture capital opportunity - are examples of the power of the enhanced EBP paradigm to generate corollary theory and useful analytical constructs. Sometimes, the extent of that usefulness can even be measured against the most concrete of economic yardsticks - the dollar. This is demonstrated in the next section which provides a contemporary estimate of the value of the putative Australian ersatz venture capital market in late 1991.

7.2.7 CONTEMPORARY ESTIMATE OF THE VALUE OF THE EARLY 1990S AUSTRALIAN ERSATZ VENTURE CAPITAL MARKET

By late 1991, the high proportion of non performing loans accruing to the many debt wrecks in the economy had seen banks and other lenders become substantial de facto equity holders. The traditional policy of writing off bad debts presumed that they would represent only a tiny fraction of a banker's portfolio. With non performing loans in Australia's major banks expected to reach between 20 and 30 percent for certain categories of loans, (Falkiner 1991: 15), the potential maximum value of ersatz venture capital market equity could be conservatively estimated to lie between $13.7 billion and $15.2 billion (see Exhibit 7.2-4, below). This projection was based on the reasonable assumption that banks would be more than willing to 'sell up' all the businesses under their de facto control for an amount which would return to them the value of the principle and accrued interest embodied in all non performing loans. Under Australian Taxation law, a financial institution cannot write off a loan unless it is convinced that there is no possibility of further recovery of the debt. The maximum potential size of the market therefore was represented by the total value of non performing
loans which had not yet been written off. Exhibit 7.2-4 shows the actual and projected level of non-performing loans in the four largest banks in Australia: Commonwealth Bank, ANZ Bank, Westpac Banking Corporation and National Australia Bank as at September, 1991.

**EXHIBIT 7.2-4**

**AUSTRALIAN ERSATZ VENTURE CAPITAL MARKET**

**POTENTIAL MARKET SIZE LATE 1991**

![Graph showing the potential market size for ersatz venture capital late 1991](image)

Source: Potter Warburg Research

As Exhibit 7.2-4 shows, the actual value of all non-performing loans at September 1991 was $15.2 billion. Obviously, not all businesses embodying these non-performing loans would be suitable ersatz venture capital candidates (see section 7.2.5, above for candidate selection criteria) and hence worthy of receiving a full application of the enhanced EBP paradigm to generate a business plan. However, even if the 'ersatz venture capital treatment' could be applied successfully to only one percent of the loans in the potential market, this would represent 'ersatz marketable' equity value of the order of $150 million.

This is an important and substantial figure even in absolute terms. But in relative terms - relative that is to the formal venture capital market which had virtually collapsed to zero turnover at the time - it is monumental.

Exhibit 7.2-5 shows the contemporary projected trend for non-performing loans and bad debt write offs on an annual basis. Contemporary figures and projections clearly indicated that the window of opportunity for actively exploiting an ersatz venture capital market would not last forever.
7.2.8 FUTURE TURNAROUND SITUATIONS AND CYCLICAL OPPORTUNITIES 
FOR ERSATZ VENTURE CAPITAL MARKETS

Exhibit 7.2-5 shows that when circumstances create the opportunity, development of an ersatz venture capital market (a market based on injecting new equity into salvageable debt wrecks with high growth potential) needs to take place quickly, or the opportunity will be lost. At the time of writing this chapter (early 1996), the Australian ersatz venture capital market has all but vanished. Banks and major financial intermediaries have largely eliminated non performing loans from their portfolios. Sadly, in the vast majority of cases this was not done in a manner similar to the Wirrilla case but by the ruthless and wasteful method of business-destroying liquidations.

However, because debt wrecking is a cyclical phenomenon common to all developed economies in its occurrence if not its timing, the potential utility of multiple applications of the enhanced EBP paradigm in this area will endure. In the early 1990s Australia had its multitude of debt wrecks due to the profligate lending against dubious real estate values by banks anxious for market share in a rapidly deregulating environment. And the USA had its multitude of debt wrecks resulting from the collapse of a great many of its Savings and Loans (S&L) institutions. In 1996, it is Japan whose
economy is most marked and threatened by debt wrecked businesses and the attendant non performing loans.

What goes around, comes around. But, when the time of mass debt wrecking comes around again, it is to be hoped that a greater number of applied applications of the enhanced EBP paradigm, such as that illustrated by the Wirrilla case, may result in a lesser number of viable businesses being destroyed instead of re-directed to innovative paths of profitable growth.

In the meantime, there will always be individual businesses capable of benefitting from venture renaissance through a detailed and dedicated application of the enhanced EBP paradigm.

7.3 MERGERS AND ACQUISITION IMPLICATIONS OF THE 'ECIPP' METHOD AND THE EBP PARADIGM

7.3.1 THE ECIPP METHOD & CHILDCO CASE IN A THEORETICAL PERSPECTIVE

Chapter four of this dissertation developed the enhanced Entrepreneurial Business Planning paradigm by a combination of research techniques including grounded theory. Four mandates for the paradigm emerged. The fourth was the requirement to 'operationalise the power of simulation' (see section 4.4.5, page 115, above).

The ECIPP method of dynamic due diligence was then developed as a practical mechanism and innovative system for operationalising the power of simulation. The details of the ECIPP method were presented in section 4.4.6, pages 116 to 120, above. There are five phases to the proposed method, illustrated as a simple flowchart in exhibit 4-2 on page 117, above and reproduced on the facing page for readers' convenience in following the arguments of this section of the dissertation. It is called the 'ECIPP' method of dynamic due diligence from the acronym formed from the five procedures which comprise it:

- Establishing mandates;
- Creating projections;
- Identifying issues;
- Prioritising procedures;
- Performing them.
Section 7.1.4 of this dissertation summarized the claims made on behalf of the enhanced EBP paradigm under three headings, extent, limits and significance. The fourth claimed area of significance was that the enhanced EBP paradigm can generate useful analytical constructs in a wide variety of fields thus expanding theoretical and practical knowledge in entrepreneurship and other disciplines. In the previous section (7.2, above), it was demonstrated that two new constructs, the ersatz venture capital matrix and the deal zone matrix - emerging from analysis of the Wirrilla case - had generic utility in the theory and practice of venture renaissance.

The ‘ECIPP” method provides another clear example of the capacity of the enhanced EBP paradigm to generate a useful analytical construct and in the ChildCo case (CASE 4, reported, above, in chapter 6, pages 242 to 255) the ECIPP method was put to work as a practical method for performing an acquisition evaluation. What follows is a deeper consideration of the ChildCo case - emphasising theoretical implications rather than practical applications - showing how the enhanced EBP paradigm, via creation and execution of an analytical construct, can generate corollary theory.

In this specific example, the generated corollary theory contributes to the discipline of finance (as well as entrepreneurship) in the field of mergers and acquisitions. But the specifics of the example amplify rather than diminish the general point: the enhanced EBP paradigm is a potent
generator of corollary theory and practice. Well applied and carefully interpreted - especially by way of case research - it has the power to expand the content and contextual relevance of entrepreneurship and many other social science disciplines.

7.3.2 ECIPP'S MAJOR DIFFERENCES FROM EXISTING DUE DILLIGENCE METHODS

- Summary Of The Prevailing Theoretical Framework
  And Method - From The Discipline Of Finance

At the macro level, Steiner (1975) provides an analysis of merger motives and their effects on an entire economy. Halpern (1983) furnishes a review of the empirical work on merger benefits and merger theories. Howell (1970) presents a framework for different classifications of mergers and a methodology for analyzing possible merger candidates. Von Bauer (1981) suggests an approach to the evaluation of risk and return requirements for strategic investments like mergers, acquisitions and divestitures. The M&A field is so well-established that it even has its own journal, Mergers and Acquisitions. A most interesting article from that journal is Rappaport (1976). He approaches the valuation of the firm from the point of view of managerial rather than market expectations about future performance - an approach which is also fundamental to the ECIPP method. Thus, Rappaport's paper may be viewed as an 'anchor' (albeit a tenuous one) connecting empirical work in the field of entrepreneurship to the M&A corpus in the traditional finance literature.

There are studies, such as Mikkelson and Ruback (1985), which analyse empirical data on interfirm investment decision making, including M&A. It is fair to say, though, that, in the established finance literature, concrete managerial and empirical analyses are rarer than abstract methodological debate. Much of that debate centers upon whether an assessment of the outcome of a merger or acquisition should be based on its effect upon the acquirer's earnings per share or its effect upon market value - i.e. is it a positive NPV investment? The market value school seems to be winning. This is reflected in the general financial textbooks where the theory of mergers and acquisitions is usually rated as a 'special subject' and located towards the rear of the text (see, for example, Philippatos and Sihler 1987; Weston and Brigham 1990). Myers (1976) provides the merger evaluation framework which seems to be most replicated. Resembling Myers, to a
greater or lesser extent, the recommended steps in most NPV-oriented methods of M&A evaluation can be summarised as:

1. Determine the market value of the target's assets.
2. Perform calculations and estimations of likely future performance\(^\text{12}\).
3. Determine whether the target is likely to be a generator of free cashflows\(^\text{13}\).
4. Develop an appropriate rate for discounting free cashflows.
5. Obtain the NPV of the project and proceed if positive.

- **Summary Of The Prevailing Practitioner Framework and Method**
  - **From the World Of Investment Decision Making**

This research involved examination of many due diligence methods prescribed for use by various chartered accounting firms and numerous conversations with senior practitioners from merchant banks and other financial organisations whose business included the conduct of merger and acquisition evaluations. Whilst allowing scrutiny of their systems, all but one of these respondents\(^\text{14}\) refused permission to have the jealously-guarded minutiae of their proprietary due diligence procedures reproduced in this dissertation. What can be said is that the differences between all the examined practitioner due diligence methods were few: they all seemed remarkably similar. All shared a laudable, fundamental commitment to comprehensiveness.

One professional was willing to have his company’s investment evaluation system exposed to academic debate. Mr. Brian Ball, a senior consultant with the Advent Group, made available for reproduction the detail of the due diligence procedure used by his company. The Advent Group is a prominent world-wide venture capitalist. Its Australian affiliate is headquartered in Collins Street, Melbourne. Investing in companies is its business (albeit the taking of minority equity stakes rather than merging or making full-scale acquisitions). The regular, professional performance of due diligence investigations is its staple, daily work. Advent’s due diligence

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\(^{12}\) The financial theorists do not tend to elaborate on how this might be done. They tend to rest content with the normative prescription that it *ought* to be done and the implied assumption that it *can* be done.

\(^{13}\) Free cashflow is defined to be cashflow from operations *net of required investment* (in fixed assets, working capital, research and development, etc.).

\(^{14}\) Brian Ball of the Advent Group, as will be seen presently.
method is not only excellent in itself but dispassionate, comparative examination of several other practitioner methods supports the claim that it is very typical of the genre.

Advent calls the written output of its investment evaluations, 'Deal Qualification Memoranda'. Therefore, its due diligence method is known as the 'DQM Format'. It embraces: 10 predetermined, general categories; over 58 predetermined due diligence issues; and 13 predetermined summary factors - not including legal considerations. A breakdown of categories (shown in italics) and issues is: the Company (5 DD issues); Products (6 DD issues); Manufacturing (3 DD issues); Marketing (11 DD issues); Management (6 DD issues); Finance (8+ DD issues); The Deal (10 DD issues); Fund Involvement (3 DD issues); Risks (6+ DD issues); Key Factors (13 summary factors).

The commitment of the traditional, professional investment community to the concept of predetermination as a maxim of due diligence investigation is typified in Advent's 'DQM Format'. And it is summarized, beautifully and unwittingly, by the title of a commercial seminar on the topic. Advertised in a promotional brochure inserted in *The Australian Financial Review* of 12 May, 1993, the seminar's title was: 'Critical Issues in Due Diligence. A practical and comprehensive one day analysis of the due diligence process and the critical issues every company must address' [italics are this author's]\(^{15}\). The contents of the seminar looked excellent as was to be expected because the course provider was a seminar company under the auspices of the internationally renowned publication, *Euromoney*.

However, for the analyst of practitioner-based due diligence methods, the central point to extract, is the *mindset* bespoken by the title and design of the seminar. It is the same mindset embodied in all the inspected due diligence used by chartered accountants; in the Advent venture capitalist 'DQM Format' and, one might safely suspect, in the methods which preside and prevail in the majority M&A departments of merchant banks and major corporations all over the world. It is a mindset rightly committed to 'not missing anything' but, accordingly, over-committed to *pre-determined, detailed scrutiny of everything*.

\(^{15}\) The seminar was offered by AIC Conferences Proprietary Limited, (ACN # 003 220 424), a Euromoney Company.
At best, this is bound to be inefficient. At worst, it risks being counterproductive.

- **Summary Of ECIPP's Differences From Both Prevailing Due Diligence Investigation Methods**

The general 'finance theory' M&A evaluation method tends to be painted with a very broad brush whose bristles consist of standard capital budgeting procedures using discounted cashflow analysis techniques based on predetermined hurdle rates. The virtues are simplicity and elegance; the vice is abstraction. The general 'merchant bank' or 'practitioner' due diligence method has the virtues of thoroughness and concreteness but the vices of rigidity and inefficiency. Resolving the tradeoffs inherent in the prevailing theory-based and practitioner-based due diligence methods provided the opportunity for an innovative approach - the ECIPP method of dynamic due diligence - presented in section 4.4.6 (pages 116 to 120), above, and used as the prime technique for executing case study 4, the Childco acquisition evaluation, presented in section 6.4, above. The ECIPP method thus proposed and tested differs from the prevailing, established alternatives in stressing four useful characteristics.

ECIPP differs from the 'finance theory' method in that:

1. It is precise rather than broad.

2. The project itself tells the analyst what the hurdle rate is - the analyst does not have to set it *a priori*.

ECIPP differs from the 'detailed practitioner' method in that:

3. It is efficient because due diligence issues, directly germane to the particular project, are prioritized and 'non-issues' are eliminated from unnecessary consideration.

ECIPP differs from both alternatives in that:

4. It is neither a 'blanket' theory nor a static set of rigid prescriptions. Iterative and responsive, the ECIPP method moves in resonance with the unique financial dynamics of the specific acquisition target.
When compared to the existing alternatives, the proposed ECIPP method retains simplicity, concreteness and thoroughness but eliminates abstraction, rigidity and inefficiency.\textsuperscript{16} It is truly a method of \textit{dynamic} due diligence. The alternatives are static. Each, in its different way, establishes a fixed frame of reference and forces \textit{every} acquisition candidate, regardless of circumstances, into the frame. ECIPP is flexible: it lets each acquisition candidate, as it were, build its own frame of reference. This saves time and money in the evaluation process by concentrating intellectual and physical resources upon a prioritized investigation of demonstrably relevant issues rather than a predetermined investigation of every issue irrespective of relevance.

\textbf{7.3.3 \textit{AN AMPLIFIED ILLUSTRATION OF ECIPP'S CAPACITY TO PROVIDE VALUE-ADDED BENEFITS}}

As an example of the sorts of benefits which application of ECIPP method can provide, let us return to the Childco acquisition investigation (refer to case study 4, section 6.4, above). Using the financial model built to evaluate TargetCo (the acquisition candidate) and to project alternative scenarios based on varied assumptions proved very revealing (and potentially very profitable) in the area of ChildCo's own credit policy.

It will be remembered that ParentCo encouraged its subsidiaries to extend payment of creditors for the longest possible time that the market would bear and to record, overtly, the costs of this policy in an account called 'Credit Policy Costs' which could equally well be called 'Inventory Financing Costs'. The idea behind delaying payment, was, of course, to maximise cash available for remission to head office. In keeping with central requirements, current ChildCo practice involved heavy use of rolled-over letters of credit. In the first projected scenario conducted in accordance with the ECIPP method, the figure for credit policy costs was estimated at 7.5% of all credit additions (of more than thirty days duration) made during a financial year. Only inventory purchases were projected to be financed on terms exceeding 30 days.

In the process of evaluation, ChildCo's CEO, the evaluators developed a strong suspicion that the ParentCo-inspired credit policy, while it had beneficial effects on cashflow generation in the short term, actually

\textsuperscript{16} To the financial theorists, the author freely concedes that the ECIPP method lacks elegance. It is a very 'down and dirty' affair. This will not bother practitioners.
penalised the firm’s profitability and the longer term growth in net worth. And so it turned out to be. The second scenario, tested the implications of paying promptly, within 30 days, and therefore not having to bear the interest costs of the current policy. By simply changing the one input - from the credit policy currently employed by ChildCo and many other ParentCo subsidiaries to a ‘pay all creditors in 30 days assumption’ - the contrast in outcomes was dramatic and had profound significance for ParentCo’s policies and objectives. The base-case projected figures, (with which these second round projections should be contrasted) were presented as part of the ChildCo case analysis, in exhibit 6.4-4 on page 252, above.

### EXHIBIT 7.3-1

#### SCENARIO TWO

**Proposed TargetCo Division**

**PROJECTION SUMMARY & KEY STATISTICS**

THE 5 YEARS from JULY 1, 1993 to JUNE 30 1998

<table>
<thead>
<tr>
<th>YEAR 1</th>
<th>YEAR 2</th>
<th>YEAR 3</th>
<th>YEAR 4</th>
<th>YEAR 5</th>
</tr>
</thead>
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<td>AFTER TAX PROFIT</td>
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<td>5,233,008</td>
<td>6,286,448</td>
<td>7,543,271</td>
</tr>
</tbody>
</table>

#### STATISTICS AND RATIOS

<table>
<thead>
<tr>
<th></th>
<th>YEAR 1</th>
<th>YEAR 2</th>
<th>YEAR 3</th>
<th>YEAR 4</th>
<th>YEAR 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROCCE %</td>
<td>44%</td>
<td>42%</td>
<td>39%</td>
<td>43%</td>
<td>46%</td>
</tr>
<tr>
<td>GROSS MARGIN/SALES %</td>
<td>28%</td>
<td>29%</td>
<td>30%</td>
<td>31%</td>
<td>32%</td>
</tr>
<tr>
<td>EBIT/SALES %</td>
<td>13%</td>
<td>13%</td>
<td>14%</td>
<td>15%</td>
<td>16%</td>
</tr>
<tr>
<td>A.T. PROFIT/SALES %</td>
<td>7%</td>
<td>8%</td>
<td>8%</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>TDG CFLOW/SALES %</td>
<td>5%</td>
<td>10%</td>
<td>11%</td>
<td>16%</td>
<td>18%</td>
</tr>
<tr>
<td>DEBTOR DAYS (per. end)</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>CREDITOR DAYS (per. end)</td>
<td>29</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
</tbody>
</table>

Comparing the figures of scenario one (exhibit 6.4-4) with those in scenario two (exhibit 7.3-1) demonstrates that the two major objectives of ParentCo for its investee companies - high growth (as measured by increased net worth) and high ability to generate cash - could sometimes be so incompatible as to be mutually contradictory.

Scenario one might be called the ‘cash focus’ option. Scenario two might be called the ‘growth focus’ option. Mr. Able started his acquisition quest with one dilemma, now he had another. Scenario one, if implemented, would see him rewarded for high ROCCE (‘return on controllable capital employed’), and high generation of remissible cash. But would and should
his rewards be any less if he took TargetCo down the path of scenario two, earning higher profits every year and finishing, in year five, with a business whose net equity had grown 19.2% greater? The more the figures are compared, the more Mr. Able's managerial situation and ParentCo's two major financial objectives become problematic. In summary, one simple initial change produced vastly different results\(^\text{17}\) and sent ParentCo a message dreadfully akin to the old cliché: you can't have your cake and eat it. In TargetCo's case, if ParentCo instructed Mr. Able to maximise generation of cash, there was a high price to pay. It was the difference between a projected 20.84% return on investment and a projected 16.67% return on investment (see exhibits 7.3-2 and 7.2-3).

**EXHIBIT 7.3-2**

### IRR SCENARIO ONE - 'CASH FOCUS'

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment Outlay</th>
<th>Cumulative Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>YEAR 0</td>
<td>3,500,000</td>
<td></td>
</tr>
<tr>
<td>YEAR 1</td>
<td>4,040,689</td>
<td></td>
</tr>
<tr>
<td>YEAR 2</td>
<td>4,717,474</td>
<td></td>
</tr>
<tr>
<td>YEAR 3</td>
<td>5,481,545</td>
<td></td>
</tr>
<tr>
<td>YEAR 4</td>
<td>6,426,092</td>
<td></td>
</tr>
<tr>
<td>YEAR 5</td>
<td>7,566,853</td>
<td></td>
</tr>
</tbody>
</table>

**Internal Rate of Return**

<table>
<thead>
<tr>
<th>NET PRESENT VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.67% 3,500,000 3,500,000</td>
</tr>
</tbody>
</table>

**EXHIBIT 7.3-2**

### IRR SCENARIO TWO - 'GROWTH FOCUS'

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment Outlay</th>
<th>Cumulative Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>YEAR 0</td>
<td>3,500,000</td>
<td></td>
</tr>
<tr>
<td>YEAR 1</td>
<td>4,295,965</td>
<td></td>
</tr>
<tr>
<td>YEAR 2</td>
<td>5,233,008</td>
<td></td>
</tr>
<tr>
<td>YEAR 3</td>
<td>6,286,448</td>
<td></td>
</tr>
<tr>
<td>YEAR 4</td>
<td>7,543,271</td>
<td></td>
</tr>
<tr>
<td>YEAR 5</td>
<td>9,019,841</td>
<td></td>
</tr>
</tbody>
</table>

**Internal Rate of Return**

<table>
<thead>
<tr>
<th>NET PRESENT VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>20.84% 3,500,000 3,500,000</td>
</tr>
</tbody>
</table>

\(^{17}\) A clear example of Bygrave and Hofer's ninth parameter of entrepreneurial process (see page 8 above) at work: that entrepreneurial outcomes are extremely sensitive to changes in initial conditions.
7.3.4 THE EXTENT OF ECIPP'S GENERALITY AND UTILITY

The essence of any merger & acquisition or venture renaissance evaluation is to reach an understanding of the business and financial dynamics of the acquisition or turnaround candidate. Every candidate and its surrounding circumstances is unique: a ‘single setting’. This makes case research, by definition, the most appropriate methodology for both developing and testing M&A evaluation theory and practice (Yin 1989: passim). Eisenhardt, in her treatise, *Building Theories from Case Research*, agrees.

'The case study is a research strategy which focuses on understanding the dynamics present within single settings'. (Eisenhardt 1989, p. 534).

It is not possible to conceive of, for example, a quantitative method for building and testing M&A evaluation theory because it is not possible to meaningfully answer the simple question, what would one survey? A list of commonly investigated variables or prevailing investigation habits might emerge, but a demonstration of the *efficacy* and *viability* of a given M&A evaluation procedure is beyond the capacity of quantitative research techniques. And it lies beyond the scope of such qualitative techniques as depth interviews or focus groups. So, case research, with its capacity for exploration of the richness inherent in single situations, is the most appropriate investigative technique. But how far can it be taken in terms of generalising theoretical results and generating practical procedures?

It is possible to make valid generalisations by extrapolating from the single ChildCo case. Arguments in justification of the ability to extrapolate broadly from a singular example will be confined to just two points. First, ChildCo is an example in *extremis*. Mr. Able had only one month to complete his M&A evaluation; no expertise or previous experience; severely limited budget for the exercise and had been flatly informed by prevailing M&A experts that what he wanted - on his budget in his time frame - could not be done. Using the ECIPP method, the participatory action research team did it: on time, within budget to the satisfaction of a previously sceptical board of one of the world’s largest multi-national companies including arguably the world’s most professional corporate M&A division.¹⁸

¹⁸ The author does not seek to overclaim ECIPP's innovativeness or uniqueness. In grounded theory terms it is 'substantive' not 'formal' and it is not in itself a theory but a mere tool of investigation. It is a compendium of well-known techniques and there are other investigative planning regimes which could do its job. However, it does *emanate* from theory - the enhanced EBP paradigm - and illustrate its power to generate corollary constructs.
Second, this extreme case - as are all in extremis cases - is fraught with potent replication logic. Both Yin (1989) and Eisenhardt (1989) stress the importance of both example extremity and logical replicability to the validity of generalisations extrapolated from case research. It is undeniable that if Able and the researcher, in their extreme circumstances, used ECIPP to advantage, many in less extremity can replicate their use of the method. Furthermore, it is entirely legitimate to hypothesise that many of these users of the method will proceed to a successful resolution of their M&A evaluation problem and that they will do so in less time and at less cost than if they employed either of the prevailing alternative due diligence evaluation methods specified, above, in section 7.3.2. Thus, it is possible to make some valid generalisations.

In terms of the discipline of entrepreneurship specifically and the social sciences generally, the demonstrated efficacy of the ECIPP method has significant implications. It demonstrates the following important generalisable and replicable sequence: the enhanced EBP paradigm engenders the creation of an innovative analytical construct which, when applied in case research can create both corollary theory and corollary practical benefits. Most importantly, the successful specific demonstration of ECIPP's viability has contributed significantly to the main generic benefit conveyed by the enhanced EBP paradigm: the extension of the range and utility of Entrepreneurial Business Planning as a management technology, well beyond the constraints to which it has hitherto usually been confined: crude prescriptions for writing a short business plan by an entrepreneur of a startup business seeking venture capital19.

In summary, the ECIPP method of dynamic due diligence is an analytical tool worthy of mature consideration and further investigation by theorists and practitioners in the M&A field, in the disciplines of both finance and entrepreneurship and, beyond, in the realms of general management theory, methodology and practice. It thus provides a vivid illustration of the powerful capacity of the enhanced paradigm of Entrepreneurial Business Planning both to extend the domain of existing entrepreneurship theory and generate corollary analytical constructs.

19 Chapter three of this dissertation provided a content analysis of the Entrepreneurial Business Planning literature and distilled it to obtain and criticise the prevailing EBP paradigm prior to chapter four's grounded theory discovery and development of the enhanced EBP paradigm.
7.4 IN TEMPORARY CONCLUSION:
ANOTHER PARADIGM - AND THEM ALL

7.4.1 FISHING WITH MISTER SKUES

The research about to be temporarily concluded has been centred upon a very particular paradigm. It is now appropriate to end the dissertation with a return to general discussion of some characteristics which all paradigms share. But before we can even contemplate the maximum plurality - all - we ought to have before us at least the minimum plurality - two. So, the author takes this opportunity to acquaint the reader who has followed the exposition of one paradigm for some hundreds of pages, with another, seemingly totally unrelated, in scarcely more than one hundred words. This second paradigm takes place not in the discipline of entrepreneurship but in the discipline of fly fishing.

In the late decades of the nineteenth century, F.M. Halford became the undisputed world authority upon the theory and practice of fly fishing. Combining his experiences in the chalk streams of Hampshire with a deep study of entomology and vigorous application of the scientific method to every aspect of the craft, Halford created a paradigm of dry fly fishing, centred on the precepts enunciated in his 1889 classic, *Dry-Fly Fishing in Theory and Practice* and culminating in his last (1913) work, *The Dry-Fly Man's Handbook*. So dominant did the Halford paradigm of fly fishing - up stream casting with dry flys only - become, that to contemplate rejecting any of the master's maxims was regarded by the vast majority of fly fishing theorists and practitioners as tantamount to heresy. Even worse, it was not 'good form'.

Then along came Mr Skues.

G.E.M. Skues, once an ardent disciple of Halford and his teachings, was a London solicitor and writer of great elegance and insight who spent every spare moment he could manage fly fishing in England and the Continent but mostly upon his beloved River Itchen. As time went by, his observations upon the river - one might say his 'grounded theory data base'

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20 Describing the contemporary potency of the Halford paradigm, Justice Sir Peter Crisp has written: 'His influence was immense. It is said that, after Halford, anyone who used the wet fly on the streams of southern England "skulked like a poacher" '. Crisp P., 1996: 'The Vicarious Angler', *Victorian Fly-Fishers' Association Newsletter*, Vol 44 No 6, April. Melbourne.
if it were not both cumbersome and anachronistic to do so - convinced him that several elements of the Halford paradigm were erroneous and that the theory and practice of fly fishing could be greatly enhanced by including wet flys - representations of mayfly nymphs - in the repertoire of techniques which could legitimately be used by a gentleman fly fisherman and still entitle him to be regarded as a 'true sportsman', with all that that phrase connoted in terms of ethical codes of conduct to the upper and middle classes of Edwardian England.

In a work that has become a classic, Minor Tactics Of The Chalk Stream (first edition 1910, subsequently published 1924) and in subsequent masterpieces, Skues set about enhancing the Halford model. In so doing, he not only revolutionised the sport but recorded some observations which are of immortal value to all who study paradigms - in whatever field - and are particularly germane to those who have the temerity to challenge old paradigms and build new ones. Skues wrote (1924: 132):

'Nothing presents itself to any two minds in an identical light. Each sees the multicoloured facets of the truth from a different angle. No experience is the same to two diverse idiosyncrasies, and the only help which the writing of a book of this kind can be to others is, not in the laying down of rules, not in the preaching or advocating of systems, not in teaching that which the writer has beaten out by his own experience, but in hints which start or help trains of thought and experiment, to make his own, the conclusions which his own personality is capable of drawing from the test. In this way only is progress possible. In this and in doing something to assure that, in the new learning and in the new systems which come along, that which is of value in the systems of the past shall not be forgotten, but shall be transmuted to the uses of the present and the future, is all the justification I can plead for the foregoing pages.﻿'

Throughout this research project, the author has been sustained by the feeling that he has been, as it were, fishing with Mr Skues because his is the philosophy of paradigm building that this author shares and believes in.

Of course, no paradigm ever completely dies because, if we lose the history of ideas, we lose a substantial part of their value. But from the moment of its conception, each new or enhanced paradigm begins to die.
And so it should because, if ideas were not subject to challenge, dogma would replace research and the Dark Ages would descend again. Of course, acknowledgement of the ephemerality of all paradigms provides the researcher with no comfort. It haunts him.

7.5.2 HAUNTED BY WATERS

A researcher should be dispassionate. But this does not mean - cannot mean - 'without passion': it means, simply, 'open-minded'. Research forever expands horizons, never shrinks them, and this engenders all the emotions which flow from uncertainty. At the conclusion of a project - always the temporary conclusion of a voyage of discovery - the dedicated qualitative researcher is haunted by waters. Those he has sailed upon - but too quickly. Those into which he has dived - but never deep enough. And those which he has never ventured upon, nor even imagined, where lurk the storms which will, one day, shatter his fragile raft of ideas. But to be haunted is also to be challenged and that way lies excitement not gloom.

This researcher's voyages - exploring the vast potential of Entrepreneurial Business Planning as a means of opening new theoretical and practical territories - will continue. At this stage of temporary conclusion he can think of no more appropriate words in parting from his patient readers than those of a far more eloquent paradigm enhancer, Mr G.E.M. Skues:

'In giving records of my own experience by the water-side rather than in laying down a system, I am not asking others to do as I do because I say it, or to accept anything from me. I would have no weight allowed by any man to tradition or authority until it is proved by himself; no man's words accepted as final because they are his; everything questioned, tested, and brought to the dock of practical experience. If I have ventured, indirectly, to preach at all, the sum of my preaching is not a system, a method, but an attitude of mind ... above all, the inquiring mind.' (Skues 1924: 132-133)

If you would know the true value of the enhanced paradigm of Entrepreneurial Business Planning, use it.
NOTE

The pagination of this thesis has been organised so that the pages can be printed double-sided.

As a result, there were blank pages at the end of some chapters, so that the first page of a new chapter always appeared on the page that faced up.

These blank pages are missing from this version of the thesis.

The pages involved are: vi, 32, 128, 302, 326, 224 and 344.
Appendix A-1

CONTENT ANALYSIS
RATING SCALE DEFINITIONS
CATEGORY 1 QUESTIONS - PEDAGOGIC AXIOMS

The purpose of the two questions in this category is to measure the level of business knowledge which the author presumes his target audience to possess.

QUESTION 1 What does the author of the work presume about his or her target audience's level of general business knowledge (GBK)?

Abbreviated format used in the survey instrument:
PRESUMED AUDIENCE GBK LEVEL.

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>Neither</td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Very Low</td>
</tr>
</tbody>
</table>
QUESTION 2  
What does the author of the work presume about the reader's ability to use personal computers and spreadsheet software?

Abbreviated format used in the survey instrument:

**PRESUMED COMPUTER/SPREADSHEET LITERACY**

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>The reader is presumed to possess a thorough knowledge of how to use spreadsheets for asking and answering complicated 'what if' questions and generating many alternative scenarios and to be familiar with sensitivity analysis techniques.</td>
</tr>
<tr>
<td>High</td>
<td>Reader is assumed to possess basic knowledge of spreadsheets and alternative scenario generation and is familiar with sensitivity analysis techniques.</td>
</tr>
<tr>
<td>Neither</td>
<td>The reader is presumed to possess only cursory knowledge of the use of spreadsheets and have very basic computer skills.</td>
</tr>
<tr>
<td>Low</td>
<td>Only low knowledge of the use of computers is presumed and no knowledge of spreadsheets.</td>
</tr>
<tr>
<td>Very Low</td>
<td>No computer skills are presumed.</td>
</tr>
</tbody>
</table>
CATEGORY 2 QUESTIONS - CONTEXT ATTRIBUTES

The purpose of the six questions posed in this category is to measure the importance of selected context attributes.

**QUESTION 3**  
Is the work intended by its author as a sole or stand-alone source of business plan writing information and instruction?

Abbreviated format used in the survey instrument:  
**STAND ALONE**

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
<th>非常喜欢</th>
<th></th>
<th>Ophile</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>Author claims the book is the definitive text on entrepreneurial business planning: that his or her prescriptions are 'all you need'.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>Author claims the book is the best available text on business planning; no other book is as comprehensive.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Neither</td>
<td>Author makes no claim that his book is a comprehensive source of business planning advice.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>Author advises reader to other books for further information on entrepreneurial business planning.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Low</td>
<td>Author strongly recommends that other information on business planning be consulted.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
QUESTION 4 Is the literature aimed, very specifically, at the writing of business plans for *startup* ventures?

Abbreviated format used in the survey instrument:

**STARTUP BIAS**

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>Author claims the book is suitable only for startup ventures.</td>
</tr>
<tr>
<td>High</td>
<td>Author claims the book is mainly for new ventures (startup and early growth phases of development).</td>
</tr>
<tr>
<td>Neither</td>
<td>No phase-of-development claim is made.</td>
</tr>
<tr>
<td>Low</td>
<td>Author claims or implies that his or her prescriptions can be used for all ventures at all stages of their development.</td>
</tr>
<tr>
<td>Very Low</td>
<td>The prescriptions were written mainly for established firms seeking further expansion and not for new ventures.</td>
</tr>
</tbody>
</table>
QUESTION 5  Is the work aimed, in significant measure, at instructing people how to write entrepreneurial business plans for the purpose of obtaining venture capital?

Abbreviated format used in the survey instrument:

**VENTURE CAPITAL PRESUMPTION**

<table>
<thead>
<tr>
<th>Grading Definition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>Author claims that venture capitalists are a prime audience for business plans and that his prescriptions are composed with a significant objective being that they will appeal to venture capitalists.</td>
</tr>
<tr>
<td>High</td>
<td>Business plan prescriptions focus mainly on obtaining venture capital.</td>
</tr>
<tr>
<td>Neither</td>
<td>Business plan prescription provides some advice on obtaining venture capital.</td>
</tr>
<tr>
<td>Low</td>
<td>Minimal mention of venture capital raising.</td>
</tr>
<tr>
<td>Very Low</td>
<td>No mention of venture capital raising.</td>
</tr>
</tbody>
</table>
QUESTION 6 What is the length, in pages, of the text?

Note that where the business planning text is a chapter or chapters of a larger book, it is the length of the chapters, not the whole book, that was measured. Of course, for obvious reasons, this question is of little account in assessing journal articles, but it was kept in for technical reasons (in order to facilitate data cross-referencing between the book and journal article samples).

Abbreviated format used in the survey instrument:

OVERALL LENGTH

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>Neither</td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Very Low</td>
</tr>
</tbody>
</table>
QUESTION 7       Does the author of the work consider and claim that his or her text can be readily adapted to a wide range of business ventures and circumstances?

Abbreviated format used in the survey instrument:

ADAPTABILITY CLAIM

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>In the opinion of the EBP author, himself or herself, his or her entrepreneurial business planning prescription can be effectively adapted to a large number of businesses, business situations and stages of the business life-cycle (for example not just manufacturing businesses and not just startups).</td>
</tr>
<tr>
<td>High</td>
<td>Author claims the business plan prescription can be used in many types of ventures with minor modification.</td>
</tr>
<tr>
<td>Neither</td>
<td>No claim is made that the business plan prescription can be adapted.</td>
</tr>
<tr>
<td>Low</td>
<td>The business plan prescription can be used in a narrow range of scenarios only.</td>
</tr>
<tr>
<td>Very Low</td>
<td>The business plan prescription applies to specific situations only.</td>
</tr>
</tbody>
</table>
QUESTION 8

How does the content analyst rate the adaptability of the text?

Note: this is the most subjective rating in the entire schema of coding. It should be mentioned, as a measure of the researcher's attempt to be as objective as possible, that each of the three coders (Hindle, Van Andel and Duraiswami) has considerable practical experience in writing and assessing business plans as well as scholastic knowledge of the field of EBP literature; that all of them read all works and coded all other questions before coding this one and that the ratings applied (in common with all other ratings) are the results of their unanimous consensus.

Abbreviated format used in the survey instrument:

ADAPTABILITY POTENTIAL

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>Neither</td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Very Low</td>
</tr>
</tbody>
</table>
CATEGORY 3 QUESTIONS
BUSINESS PLAN CONTENT PRESCRIPTIONS

The purpose of this category was to reduce the content prescriptions of EBP writers to as few generic attributes as are consistent with covering all of the prescriptions made by all of the authors in the 38 book and 51 journal article samples. It comprises eleven questions.

QUESTION 9 Is it important to keep the business plan short?

Abbreviated format used in the survey instrument:

KEEP IT SHORT

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>Neither</td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Very Low</td>
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<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
QUESTION 10  How important is it for the entrepreneur or business owner to write his own business plan?

Abbreviated format used in the survey instrument:
DO IT YOURSELF

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>Neither</td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Very Low</td>
</tr>
</tbody>
</table>
QUESTION 11 How important is it for the entrepreneurial business plan writer to define the specific target audience (or audiences) to whom the plan is directed?

Abbreviated format used in the survey instrument:
DEFINE TARGET AUDIENCE

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>The author mandates that the target audience(s) shall be defined and the business plan written for a specific purpose and that this information be conveyed in a special section of the document.</td>
</tr>
<tr>
<td>High</td>
<td>The author mandates that the target audience(s) shall be defined and the business plan written for a specific purpose and that this information be conveyed prominently in the document.</td>
</tr>
<tr>
<td>Neither</td>
<td>The target audience shall be identified.</td>
</tr>
<tr>
<td>Low</td>
<td>Passing reference is made in the text of the need to identify the audience.</td>
</tr>
<tr>
<td>Very Low</td>
<td>No mention is made of the need to identify target audience.</td>
</tr>
</tbody>
</table>
QUESTION 12  How important is it to precisely define the objectives of a business plan to the audience for whom it is intended?

Abbreviated format used in the survey instrument:

**DEFINE PLAN OBJECTIVES**

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>Separate chapter on all objectives, in particular marketing, financial, operational and developmental.</td>
</tr>
<tr>
<td>High</td>
<td>Separate section on most objectives.</td>
</tr>
<tr>
<td>Neither</td>
<td>Summarise the objectives in the executive statement.</td>
</tr>
<tr>
<td>Low</td>
<td>Outline the objectives in one or more of the sections on marketing, operations and finance.</td>
</tr>
<tr>
<td>Very Low</td>
<td>No specific mention of objectives.</td>
</tr>
</tbody>
</table>
QUESTION 13  How important is it to define the investment opportunity being offered to readers of the business plan?

Abbreviated format used in the survey instrument:

DEFINE INVESTMENT OFFER

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>Author recommends an early, clear statement of the type, quantum and timing of the investment sought, combined with a number of scenarios on the range and timing of return on investment.</td>
</tr>
<tr>
<td>High</td>
<td>A statement of the type and quantum of investment sought.</td>
</tr>
<tr>
<td>Neither</td>
<td>A statement that this document has been prepared for the purpose of raising finance.</td>
</tr>
<tr>
<td>Low</td>
<td>Plan to include financial statements which show a requirement for funds.</td>
</tr>
<tr>
<td>Very Low</td>
<td>Plan makes no statement on fund requirements.</td>
</tr>
</tbody>
</table>
QUESTION 14  How important is it to make a distinct statement differentiating the venture's business concept from others in the same industry?

Abbreviated format used in the survey instrument:

DIFFERENTIATE BUSINESS CONCEPT

<table>
<thead>
<tr>
<th>GRADING</th>
<th>DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>The plan to include at least one separate chapter describing the business concept.</td>
</tr>
<tr>
<td>High</td>
<td>The plan to include a section describing the business concept.</td>
</tr>
<tr>
<td>Neither</td>
<td>A brief outline of the concept in the executive statement.</td>
</tr>
<tr>
<td>Low</td>
<td>Some description of the concept in one or more of the sections of the business plan.</td>
</tr>
<tr>
<td>Very Low</td>
<td>No analysis of the business concept.</td>
</tr>
</tbody>
</table>
QUESTION 15  How important is a separate, precise formal statement of the business opportunity presented by the business plan?

Abbreviated format used in the survey instrument:
FORMAL OPPORTUNITY STATEMENT.

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
</tr>
<tr>
<td>Author mandates a precise description of the core opportunity in a section of its own.</td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>Author <em>insists</em> that an opportunity statement must occur somewhere in the body of the plan.</td>
</tr>
<tr>
<td>Neither</td>
</tr>
<tr>
<td>Executive summary to mention opportunity.</td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Statement <em>advises</em> an opportunity somewhere in the plan.</td>
</tr>
<tr>
<td>Very Low</td>
</tr>
<tr>
<td>No opportunity statement.</td>
</tr>
</tbody>
</table>
QUESTION 16  How many disciplines or functional management areas (e.g. marketing, management of team process, production or technology, economics, finance, law, patents, ethics etc.) should be addressed by the business plan?

Abbreviated format used in the survey instrument:

MULTI-DISCIPLINARY INTEGRATION

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>Neither</td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Very Low</td>
</tr>
</tbody>
</table>
QUESTION 17  How high an importance does the author place on including integrated financial projections (capable of adapting to changes in input assumptions and data) in the business plan?

Abbreviated format used in the survey instrument:

RELATIVE IMPORTANCE OF FINANCIAL PROJECTIONS

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Very High</strong></td>
</tr>
<tr>
<td><strong>High</strong></td>
</tr>
<tr>
<td><strong>Neither</strong></td>
</tr>
<tr>
<td><strong>Low</strong></td>
</tr>
<tr>
<td><strong>Very Low</strong></td>
</tr>
</tbody>
</table>
**QUESTION 18**  How important is it to include in the business plan (or at least have the ability to generate) the key results of alternative scenarios, which have been tested for sensitivity of the venture to variations in assumptions and other key data inputs?

Abbreviated format used in the survey instrument:

**SENSITIVITY ANALYSIS**

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>Sensitivity analysis is a major issue, explained in the text and used to present a finished but flexible business plan.</td>
</tr>
<tr>
<td>High</td>
<td>Author recommends, at a minimum that analysis (including financial analysis) of alternative scenarios be conducted and possibly included in appendices.</td>
</tr>
<tr>
<td>Neither</td>
<td>Sensitivity analysis mentioned but not emphasised.</td>
</tr>
<tr>
<td>Low</td>
<td>Author advises the projection of at least an optimistic and pessimistic case with respect to at least one functional area of the plan.</td>
</tr>
<tr>
<td>Very Low</td>
<td>No mention of sensitivity analysis.</td>
</tr>
</tbody>
</table>
QUESTION 19 How important does the author claim it is for the reader to adhere precisely to the table of contents provided in the text (and adhere rigidly to the author's prescriptions with little scope for flexibility or initiative)?

Abbreviated format used in the survey instrument:

**TABLE OF CONTENTS RIGIDITY**

<table>
<thead>
<tr>
<th>GRADE</th>
<th>-definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>Table of contents must be followed.</td>
</tr>
<tr>
<td>High</td>
<td>Minimum table of contents recommended.</td>
</tr>
<tr>
<td>Neither</td>
<td>Table of contents recommended, more items can be added.</td>
</tr>
<tr>
<td>Low</td>
<td>Disciplines to be covered recommended.</td>
</tr>
<tr>
<td>Very Low</td>
<td>No table of content recommended.</td>
</tr>
</tbody>
</table>
CATEGORY 4 QUESTIONS
DEGREE OF INSTRUCTIONAL SOPHISTICATION

This category consists of three questions and its purpose is to evaluate the level of instructional sophistication provided by the text.

QUESTION 20 What is the overall level of instructional sophistication delivered by the text?

Abbreviated format used in the survey instrument:
OVERALL

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
</tr>
<tr>
<td>High</td>
</tr>
<tr>
<td>Neither</td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Very Low</td>
</tr>
</tbody>
</table>
QUESTION 21  What is the level of instruction given (or knowledge presumed) in revenue and cost forecasting?

Abbreviated format used in the survey instrument:
REVENUE & COST FORECASTING

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>Detailed instruction to a very high standard of forecasting or presumption that the majority of readers possess knowledge at this level, or exhortation to acquire such knowledge in order to produce Revenue and cost forecasts.</td>
</tr>
<tr>
<td>High</td>
<td>Instruction to a high standard of forecasting or presumption that the majority of readers possess knowledge at this level, or exhortation to acquire such knowledge in order to produce Revenue and cost forecasts.</td>
</tr>
<tr>
<td>Neither</td>
<td>Coder's estimate of midpoint between very high and very low.</td>
</tr>
<tr>
<td>Low</td>
<td>Cursory presumption of or instruction in knowledge of financial modelling using spreadsheets.</td>
</tr>
<tr>
<td>Very Low</td>
<td>Extremely cursory or no presumption of or instruction in knowledge of financial modelling using spreadsheets.</td>
</tr>
</tbody>
</table>
QUESTION 22  What is the level of instruction provided by the author in financial modelling which employs spreadsheets (or purpose-dedicated software packages) and/or the author's presumption of such knowledge on the part of a reader?

Abbreviated format used in the survey instrument:
FINANCIAL MODELLING

<table>
<thead>
<tr>
<th>GRADING DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Very High</strong></td>
</tr>
<tr>
<td><strong>High</strong></td>
</tr>
<tr>
<td><strong>Neither</strong></td>
</tr>
<tr>
<td><strong>Low</strong></td>
</tr>
<tr>
<td><strong>Very Low</strong></td>
</tr>
</tbody>
</table>
Appendix A-2

SELECTED PROJECT SUMMARIES FROM THE GROUNDED THEORY DATA BASE

Note on presentation: For each project/case (or cluster of cases) in the data base, its title is provided in italics; the agency for whom the work was done is listed in brackets and a very brief synopsis follows. Every project/case is the original work of the author (where co-authors are involved, their contribution is indicated in brackets). ¹

¹ Several of the projects were done at the behest of two government agencies which, for brevity, are best represented by their initials. DICT stands for Department of Industry, Commerce and Technology (a Commonwealth Government department). DITR stands for Department of Industry, Technology and Resources (a Victorian State Government department).
(S.A. Department of State Development)
The report recommended the creation of and planned a new venture - an independent entity with industry representatives on the board - out of what was becoming a potentially inefficient deployment of resources within a large government department. Cabinet endorsed and implemented recommendations.

(Australian Government)
After devising a system for equitable decision making regarding awarding of grants to inventors, the author went on to conduct the first full studies according to the new system. Two progressed through all stages and are now fully-fledged successful businesses.

A Business Plan For The Development Of The Cammiss/Russo CO₂ Absorber And Ethylene Injector.
(DICT Australian Government)
This business plan resulted in successful conclusion of venture capital deal.

A Business Plan For Tender Information Systems Pty Ltd.
(Tender Information Systems Pty Ltd per Government Grant)
Business plan: four venture capitalists made offers.

An Investigation Of The Commercial Feasibility Of The Bell Envelope Prototype.
(Pratt Financial Services)
Attitudinal and other marketing research determined the inadvisability of investment in this project.

An Investigation Of The Commercial Feasibility Of The Datamax CX-124 Communications Interface
(Datamax Computer)
Attitudinal and other marketing research; critique of organisational practice; recommendations on production procedures; sales forecasting and marketing strategy.
An Investigation Of The Commercial Viability Of Brian Ward’s Capacitance Ratiometer.
(Victorian Innovation Centre Ltd, DICT and DITR)
Attitudinal and other marketing research supported recommendations on the commercial future of new Australian high technology.

The Solution Technologies Pty Ltd Business Plan.
(Entrepreneur and The Pratt Group)
This business plan was used as a basis for valuation between an Australian high technology company and a venture capitalist and provided the basis of an equity arrangement.

Zulu Yacht Builders Pty Ltd. Business Plan.
(Entrepreneur, DITR and DICT).
Business Plan. The submission won a National Industry Extension Scheme grant. The plan was developed in conjunction with an export grant application for a major research and development project.

The Savva Ceramics Group Business Plan.
(Queensland Department of Industry Development; Barker Gosling Solicitors; Ceramic Ovens Manufacturing Pty Ltd)
This business plan for a proposed group of companies focused on rapid commercialisation, in a wide range of international markets, of the potentials inherent in a new, Australian-invented, ceramic material. The venture completely failed to attract any funding.

(Wentworth Bond Pty Ltd and Nelson Parkhill BDO).
Business plan: resulted in sale of an invention to an established beverage manufacturer.

A Strategic Evaluation Of Shuttle Datacomm Pty Ltd.
(Shuttle Datacomm and Henty Corporation Limited.)
A detailed analysis of the marketing, organisational and financial history and potential of the company. Used as the basis of an investment decision by a prospective equity investor.

Marketing Strategy And Business Plan For Module Steelec Pty Ltd.
(Module Steelec Pty Ltd and Henty Corporation Ltd)
Detailed analysis and research of the company and its marketing environment led to the design of a comprehensive marketing strategy used as the basis for a flexible, computerised five year financial model.
A Strategic Evaluation And Initial Business Plan For The Professional Engineers Continuing Education Foundation: A New Venture Under The Auspices Of The IEAust.
(Institution of Engineers, Australia)
Comprehensive strategic design of a new venture designed to provide continuing education and training to Australia’s Engineering Workforce. Included marketing research, organisational and operational design, product range design and creation of a flexible, computerised managerial accounting and forecasting system.
Appendix A-3

A PRACTICAL PHILOSOPHY OF ENTREPRENEURIAL PROFORMA FINANCIAL STATEMENTS

The author's views on generating proforma financial statements in the context of developing an Entrepreneurial Business Plan are provided in detail as chapter 14 of Legge, J.M. and Hindle K.G. (1997 forthcoming), Entrepreneurship. Creating The Future Through Managing Innovation. London: Macmillan. This is a textbook on entrepreneurship and is at the galley stage of production at the time of completion of this dissertation (April 1996). The book is to be published by Macmillan in early 1997. Chapter 14, is entitled 'Creating The Entrepreneurial Financial Model'. What follows is an outline summary of that chapter - which contains both the author's philosophy of EBP financial modelling and a detailed description and illustration of how to implement that philosophy.
CREATING THE ENTREPRENEURIAL FINANCIAL MODEL

1. OVERVIEW
1.1 The Key Word Is 'Vital': The Venture's Financial Model Must Live And Move With The Times
1.2 The Main Task Of The Financial Model: Generation Of Integrated Proforma Statements
1.3 Design Of The Chapter
1.4 Level Of Detail And Presumed Knowledge
1.5 Introducing Everybody's Business - Exampleco
1.6 The Importance Of A Value-Adding Perspective

2. THE BASIS OF ALL PROJECTIONS: A BEGINNING BALANCE SHEET
2.1 Lots Of Design Options - But Simple Is Often Best
2.2 Information Design Principles - Equity
2.3 Information Design Principles - Assets
2.4 Information Design Principles - Liabilities
2.5 So It Balances? So What?

3. THE FIRST SET OF NEEDED PROJECTED STATEMENTS: INCOME STATEMENTS
3.1 Some General Points About Projected Income Statement Building
3.2 The Great Virtue Of A 'Value-Adding' Statement Design: It Facilitates Break-Even Analyses At The Level Of The Total Business
3.3 The Basic Principles Of Uncluttered Information Provision
3.4 Flexible Design For Meeting A Variety Of Information Needs

4. HOW DO WE GET THERE? THE KEY STEPS TO INCOME STATEMENT PROJECTION
4.1 Subsidiary Schedules And The Power Of Modern Spreadsheets
4.2 General Example: How To Build Projected Income Statements Using Subsidiary Schedules
   - Gross Revenue
   - The Direct (Or Variable) Costs Of Income Earned
   - The Two General Principles Of Modelling
     Fixed Non-Interest Costs
   - Interest Effects
   - Taxation
4.3 Some Specific Illustrations

5. THE SECOND SET OF NEEDED PROJECTED STATEMENTS - CASH FLOW STATEMENTS
5.1 Some General Points About Projected Cash Flow Statement Building
5.2 The Core Usefulness Of The Cash Flow Projection: Exploring Financing Options
5.3 Flexible Design For Meeting A Variety Of Information Needs
6. HOW DO WE GET THERE? THE KEY STEPS TO CASH FLOW STATEMENT PROJECTION
6.1 Think About The Ultimate Output: It's One Vital Line In The Balance Sheet
6.2 Think About The Heart Of The Matter: Timing
6.3 Think About The Basic Structure Of A Cash Flow Statement

7. THE THIRD SET OF NEEDED PROJECTED STATEMENTS - BALANCE SHEETS
7.1 Some General Points About Projected Balance Sheet Building
7.2 Flexible Design For Variety Of Information Presentation

8. HOW DO WE GET THERE? THE KEY STEPS TO BALANCE SHEET PROJECTIONS
8.1 The Schedule Of Accounts Receivable (Debtors)
8.2 The Schedule Of Accounts Payable (Creditors)
8.3 Other Bridging Issues
8.4 Some Specific Illustrations

9. THE GREAT 'WHAT IF' GAME. APPLYING THE POWER OF SIMULATION TO MANAGE VARIANCE & CHANGE
9.1 The Implications Of A Living Model
9.1 Simulation Or Playing The 'What If' Game
Appendix A-4

FIPRAL
(FINANCIAL PROJECTION AND ANALYSIS MODEL)

AN ENTREPRENEURIAL FINANCIAL MODELLING SYSTEM

ILLUSTRATED USING DATA AND PROJECTIONS FROM THE WIRRILLA CASE STUDY
1 Wirrilla's Accounting System Prior To The Entrepreneurial Business Planning Process

In section 7.3 of the Wirrilla business plan (see Volume II, CASE 2) it was stated that, under the auspices of the original proprietor, financial management had been the weakest link in Wirrilla's administrative armour. The major manifestation of this was the company's lack, until the advent of the Entrepreneurial Business Planning process, of a comprehensive philosophy of accounting as a management tool and the benefits which can result from the structured integration of:

(1) the quantitative measurement systems of the field and the production line

with

(2) a whole-of-business, management-oriented, easy-to-understand chart of accounts and its deployment, to produce long term as well as short term financial projections as a component of an integrated business plan

and

(3) the integration which should exist between operational measurement and recording systems, managerial monitoring and planning at an enterprise level and the production of financial reports and statements capable of informing both internal and external audiences.

The entrepreneurs was prone to see the overall process of accounting as a 'necessary evil' and under-rate the potential value of accounting as a management information and planning system. Outside accountants had been employed by Wirrilla, primarily, for the purpose of preparing the end-of-year financial statements required by the Australian Securities Commission and the Commissioner of Taxation.

Internal (Managerial) Accounting:

- had been incomplete and unintegrated;

- had been short term in focus;

- had lacked any regime for systematic planning and analysis of capital budgets, as against quite strong focus on planning and recording annual revenues and costs of operations.
External (Financial) Accounting:

- had been re-active rather than pro-active;

- had been handed as a post-facto task to external accountants whose brief has been the familiar 'end-of-year-accountant' role: to act as an intermittent, passive recorder of past events rather than as a regular active adviser concerned with on-going events.

- The company's chart of financial accounts has evolved as a legislatively mandated chronicle of past transactions rather than having been consciously created as an aid to management information and decision making.

In summary, at the time of commissioning the Entrepreneurial Business Plan, Wirrilla had lacked a comprehensive and integrated strategy of accounting and financial planning and a means for implementing that strategy. This shortcoming had been a significant cause of the company's woes - especially its overgeared capital structure.

An Entrepreneurial Business Plan embodied in a document with an adaptable financial model at its heart must provide the venture with the framework for sound and informative financial recording and reporting.

The following section provides a succinct summary of the chart of accounts created for Wirrilla's Entrepreneurial Business Planning purposes. The new chart of accounts - and the FIPRAL financial model which applied it - were the essential instrumentation components of the Wirrilla business plan. They were used to develop credible, useful, long-term projections which simultaneously meet the needs of both internal financial planning and external financial reporting.

The complete FIPRAL entrepreneurial financial model of Wirrilla is supplied on disk in an attachment at the very end of this thesis.

To run it, a reader requires a Macintosh computer capable of running the program Microsoft Excel 5.
2 Wirrilla's New Strategy-Oriented Chart Of Accounts And Financial Statement Design

2.1 Overview

Wirrilla's new chart of accounts was designed to meet three main strategic objectives.

(1) To effect the optimum tradeoff between information and presentation.

An overly-detailed financial statement or management report is almost worse than one containing too little information. Quite simply, 'spreadsheet diarrhoea' is an enemy of effective decision making, not an ally. The financial statements have to be easy to understand and convey meaningful aggregate information without overwhelming the statement-user in a mass of detail which is better left to subsidiary schedules. The chart of accounts must facilitate production of financial statements which will fit on one standard page and provide the statement reader with an easily assimilable overview of the whole business while simultaneously highlighting the most important features of operations which have caused the total picture to be what it is.

(2) To interface easily with existing measurement and recording systems.

The new chart of accounts needed to ensure that the wealth of detail contained in sub-systems such as production records, quality control measurement data, fixed asset registers, et cetera, could be aggregated, easily and automatically, to form the balances of the general account categories used for financial statement production.

(3) To Effect Simultaneity

The new chart of accounts and the statements it produced were designed to contain categories structured to yield continuous information useful to on-going planning and management of the entire business while at the same time comporting to accounting standards required of financial accounts for external reporting purposes. This meant that the company would possess the ability to compare projected with actual results on a continuous basis.
(and take appropriate action) AND that it will be able to produce an accurate, up-to-the-minute income statement, cash flow statement and balance sheet ON ANY DAY OF THE YEAR, WITH MINIMUM EFFORT, for presentation to shareholders, lenders, consultants and other relevant audiences.

2.2 Income Statement Design

SALES REPORTING

Income accounts showed the separate contributions of asparagus, minerals and general farming.

DIRECT COSTS OF INCOME EARNED

This section grouped together:

- *Materials Used*;
- *Direct Labour*;
- Those *Overheads* associated directly with Labour and Materials;
- *Freight & Customs* (see below);
- Any *Rental* expenses associated directly with production and processing;
- *Depreciation* of field and processing *Plant*.

**Note (1)** that the business plan's financial model provided *separate* detailed schedules for forecasting and recording the revenue and costs of asparagus operations and marketing and those costs associated with general farming. However, for ease of presentation (and because general farming costs were virtually immaterial compared to asparagus production costs) the direct costs of both were presented together in the proforma income statements.

**Note (2)** that while most financial (externally-oriented) accounts aggregate all depreciation into one expense account, it was highly desirable from a managerial and planning point of view to distinguish plant depreciation from non-plant depreciation and to place plant depreciation above the gross margin line rather than below it.

**Note (3)** In a traditional sense, there is an argument for calling freight a subset of the general *Marketing* expense category and placing it below the gross
margin line. However, the nature of Wirrilla's business as a value-added exporter, the sheer volume of product going overseas and the materiality of freight costs to ultimate profitability all argued for its treatment as a direct cost of income earned. For maximum managerial utility, the Freight category appeared in this section of the accounts.

THREE MAJOR NON-INTEREST EXPENSE CATEGORIES

Non-Interest General Expenses (i.e. those that fell below the gross margin line) were aggregated into three major and virtually self-explanatory categories:

- *Marketing*;
- *Administration*;
- *Research and Development*.

**Note (1)** Each of these aggregate categories was supported by detailed subsidiary schedules. Each category aggregate included both expenses incurred in purchasing external goods and services AND the relevant percentages of any internal salaries directly attributable to these activities.

**Note (2)** The concept of 'development' included any work of a preparatory, trial or experimental nature involved in preparing land for new production as distinct from expenses associated with land under established cultivation which were recorded in the accounts associated with direct production costs.

**Note (3)** that an *Other* category was reserved for any general expenses that were not readily classifiable into one of the above classifications.

**Note (4)** that Non Plant Depreciation (i.e. depreciation of all equipment not directly associated with the direct costs of income earned) was also classified as a general expense.

INTEREST PAYMENTS AND RECEIPTS

The income and expense accounts developed above brought the business to the 'EBIT' line: Earnings Before Interest and Tax. The financial model now distinguished aggregate accounts for:

- Interest Earned
• Short Term Interest Payments
• Long Term Interest Payments

TAXATION

Because of the ability of an investor (under the strategy posited in chapters 9 and 1, of the Wirrilla Business Plan - see CASE 2 of Volume II), to utilise existing tax credits, corporate income tax expenses do not arise until year three of the business plan. Obviously, however, the chart of accounts would have been incomplete without an aggregate Tax category.

INCOME STATEMENT FORMAT

The accounting philosophy and accounts developed above were combined in the income statement format set out in exhibit 6.2-3, on page 183 of chapter 6, above.

2.3 Cash Flow Statement Design

The format of the cash flow statement design was clear, fairly traditional and virtually self-explanatory.

PAYROLL AGGREGATION

A brief note on the aggregation and disaggregation of payroll - and associated issues - is in order. The income statement generic categories of Marketing, Administration and Research & Development included both expenses incurred in purchasing external goods and services AND the relevant percentages of any internal salaries directly attributable to these activities. For Income Statement purposes it was managerially desirable for expenses to be grouped according to their major functional division. For Cash Flow Statement purposes, timing of flows was the critical criterion. So, the salary components of the three main functional classifications of general expenditure were distinguished, in the Cash Flow Statement, into:

• Non-Salaries Marketing;
• Non-Salaries Administration;
• Non-Salaries R & D;
A distinct category called *Salaries*, which was a total account for all employee expenses not directly attributable to labour costs incurred above the Gross Margin line.

Total Payroll for a given period - a vital statistic for management - was then easily calculable, from the Cash Flow statement as the sum of *Direct Labour Costs* ('Wages') and *Salaries*. In the Wirrilla forecasts, one half of the general manager's salary was classified as 'Marketing'. All other current and projected managerial and clerical salaries were classified under the Administration account and itemised in a detailed subsidiary schedule.

**CASH FLOW STATEMENT FORMAT**

The accounting philosophy and accounts developed above are combined in the cash flow statement format presented in exhibit 6.2-4 on page 184 of chapter 6, above.

2.4 Balance Sheet Design

**WORKING CAPITAL**

The guiding philosophy in accounting for both current assets and current liabilities was the desire to have the minimum number of managerially distinct categories. Each such major category represented the total of balances in a structured array of subsidiary schedules.

**FIXED ASSETS**

Appendix 8 of the Wirrilla Business Plan contained a detailed breakdown of the fixed assets of the business (Plant and Non-Plant as at June 1991.) The schedules contained original costs and current written down values. The Plant fixed assets schedules were carefully arranged in sub-categories which described the major functional sub-divisions of both Asparagus and General Farming operations.

The proforma Balance Sheet listed fixed assets at written down value.
LONG TERM LIABILITIES

Only two aggregate categories were required:
• *Long Term Loans;*
• a contingency, ('Other') account.

EQUITY

Shareholders Funds comprised:
• *Capital Subscribed,*
• *Reserves,*
• *Retained Earnings.*

Section 9.5 of the Wirrilla Business Plan detailed the equity effects of the proposed method of transferring ownership of the business.

BALANCE SHEET FORMAT

The accounting philosophy and accounts developed above were combined in the balance sheet format set out in exhibit 6.2-5 on page 185 of chapter 6, above.

3 The Full Wirrilla FIPRAL Model On Disk

Chapter 4 of the thesis developed the enhanced EBP paradigm. Section 4.5.5 on page 125, above, stated and discussed the paradigm's instrumentation requirements. For any Entrepreneurial Business Plan, the fundamental co-ordination, control and simulation instrument must be a comprehensive financial projection model capable of enumerating the financial implications of alternative scenarios. As indicated in chapter 4 of the dissertation, the author has designed and built a generic financial modelling system capable of adaptation to the diverse requirements of a wide variety of businesses. FIPRAL is an acronym for 'financial projection and analysis model. It embodies the financial modelling philosophy described in appendix A-3. As indicated in section 1 of this appendix, the complete FIPRAL entrepreneurial financial model of Wirrilla - incorporating all the specifications detailed in the previous sections of this appendix - is supplied on disk in a plastic attachment at the very end of this thesis. Readers will find the model 'user friendly' and are invited to explore it.
CONTENT ANALYSIS
SAMPLE SET

BOOKS AND JOURNALS USED IN
THE CONTENT ANALYSIS STUDY
OF CHAPTER THREE OF THE THESIS

List Of Works In The Book Sample


**List Of Works In The Journal Article Sample**


NOTE

The pagination of this thesis has been organised so that the pages can be printed double-sided.

As a result, there were blank pages at the end of some chapters, so that the first page of a new chapter always appeared on the page that faced up.

These blank pages are missing from this version of the thesis.

The pages involved are: vi, 32, 128, 302, 326, 224 and 344.
GENERAL BIBLIOGRAPHY


Bibliography


¹ Two editions of Stevenson, Roberts and Grousbeck, *New Business Ventures And The Entrepreneur* are cited because the relevant chapter of the 3rd (1989) edition - chapter four, 'The Business Plan' - was used in the content analysis study of chapter three of the thesis because this component of the research was completed prior to the availability in Australia of the 4th edition - which was used thereafter. The 4th edition includes additional textual material. Stevenson's seminal ideas on defining entrepreneurship date from 1983.


