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Judging a business by its cover: An institutional perspective on new ventures and the business plan ☆

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Abstract

Business plans are widely spread among new businesses, and they are supported by various universities, governmental assistance agencies, management consultants and a wide array of literature. Business plans are often taken for granted as highly useful tools that should be frequently updated and used. This study is based on data from six companies and their environments, over five years, using several forms of data collection such as interviews, observations, and archival data. In contrast to previous studies, we found that initial conformity to business plan norms gradually and without exception lead to loose coupling. Entrepreneurs who wrote business plans never updated or rarely referred to their plans after writing them.

Keywords: Loose coupling; Business plans; Institutional theory; New ventures; University incubatees

1. Executive summary

A central assumption integrated into most educational books in entrepreneurship is that business plans are necessary for the successful start-up of ventures. The entrepreneurship field virtually abounds with books promoting business plans. Even so, there are ample reasons why business plans should be evaluated carefully and critically by research. First, a healthy skepticism towards predominant norms and well-accepted truths is always warranted. The usefulness of business plans for new ventures is seen as something as natural to many new firms as the fact that the earth was flat, some 500 years ago.

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Second, writing business plans are, of course, not a necessary condition for starting up a business. Businesses were successfully starting up before business planning first became popular to new businesses in the 1970s. Even today, many new ventures demonstrate their capability by starting up their businesses without business plans. Several interesting case-based anecdotes demonstrate this point. Famous start-up entrepreneurs who did not write a business plan before starting their businesses include Bill Gates, Steve Jobs, and Michael Dell.

Third, research on the link between business planning and performance has, so far, been inconclusive, although several studies have been conducted. Some of these studies show positive relationships, others negative or non-relationships. Despite conflicting anecdotal and academic evidence, as many as 10 million business plans are written each year, globally (Gumpert, 2002). Months of precious time, consultancy fees, and printing resources are spent by entrepreneurs who write their business plans — time and money that might be spent on other useful activities, such as looking for new customers, or establishing good supplier relationships.

In this study we found that entrepreneurs answered external demands by writing business plans as part of a symbolic act to gain legitimacy for their actions. Following closely what they had learned from their studies and books, they wrote extensive business plans with long-term forecasts. However, gradually and without exception, they lost interest in their plans, and stopped updating them. This resulted in an increasing discrepancy between the plan and the actual strategy, financial performance, and customer base of the business, as they loosely coupled their initial planning activities from day-to-day business activities. The resulting planning documents were of little interest to any but a select few entrepreneurship researchers.

This research focuses on new ventures situated in a university incubator in Sweden. We estimate that over 10,000 business plans are produced in Sweden each year, similar in scope and structure to American business plans, each in a very specific and local environment. However, unlike many previous studies, we do not focus on rare successful businesses in unique high-tech regions such as Silicon Valley. The companies we study suffer rather high death rates, weak external capital markets, constrained resources, and low levels of previous entrepreneurial experience. In other words, they share constraints, risk rates and situations typical for the majority of entrepreneurs world-wide.

We conducted 37 interviews with owners, managers, and employees, in six companies over five years. In addition, interviews were held with actors important to the new ventures, such as incubator managers, external capital providers, and consultants. Moreover, press material, business plans, and strategic plans were collected, and participant observations carried out. Initial analysis was structured according to a typology of strategic responses to institutional pressures (Oliver, 1991). We report on the three most important of these strategies, and discuss their outcomes.

The purpose of this study is to develop an improved understanding of how business plans are dealt with by young organizations, longitudinally, and with contextual sensibility. By examining, in situ, qualitatively and longitudinally, the use of business planning in new organizations, we uncover relationships of interest to scholars, policy makers, as well as entrepreneurs. We find that entrepreneurs are subjected to significant normative pressure to write business plans, primarily applied by universities and by university-educated actors. By contrast, the much discussed pressures exerted by banks and the providers of external capital were found much weaker in this study than suggested in the business plan literature. Although they encouraged the writing of business plans, neither banks nor capital providers actually used the business plan for very much. We found that the bankers had their own procedures to follow, none of which included evaluation of business plans per se, while the external capital provider we studied used a one-page annual strategic document to evaluate his investment. In sum, while some of the entrepreneurs we studied felt compelled to produce business plans, the plans did not appear to be utilized in the manner predicted by the literature. For this reason we use the theory of loose coupling to explain their planning activities.

2. Business planning practices in new ventures: an institutional perspective

Business plans are seen to be important management tools for new ventures. One indication of their importance is that approximately 10 million business plans are written each year, world-wide (Gumpert, 2002). The writing of business plans is supported by a large variety of different actors emphasizing its importance. It is commonly understood that external capital providers, such as venture capitalists and angel investors, demand business plans. Business plans quite frequently surface, and are frequently seen as a most central evaluation and educational tool in governmental support for new ventures. Many universities engage in business plan teaching, and some of the most prestigious ones conduct or endorse business plan competitions, including Harvard, Stanford, Wharton, and MIT (Honig, 2004). There is also a plethora of books dedicated to explaining how to write business plans, typically suggesting that business planning is valuable and important to the new firm (Poon, 1996; Stevenson, et al., 1999; Timmons, 1999; Lambing and Kuehl, 2000; Wickham, 2001; Kuratko and Hodgetts, 2001). It is fair to say that the entrepreneurship field abounds with advice about how to write business plans. Yet, while business plans appear to provide new ventures with an umbrella of legitimacy, their value to entrepreneurs is less apparent.

An assumption for much of the educational literature and research in entrepreneurship is that business plans enhance firm performance (Lumpkin, et al. 1998). However, reviews of business planning research made by Castrogiovanni (1996), Ford et al. (2003) and Delmar and Shane (2004), all agree that research on the relationship between business plans and performance is open to doubt. Case-based anecdotes add skepticism regarding the value of writing business plans, as they indicate that many of the most successful start-up entrepreneurs did not begin with business plans. For example, Microsoft, Dell Computers, *Rolling Stone* magazine, and Calvin Klein all started without business plans (Bhide, 2000).

Because it is not clearly supported by empirical evidence or successful business practice, the plethora of normative advice regarding the benefits of using business plans risks being misdirected. As a consequence, entrepreneurs may take such advice with skepticism or choose to write business plans without actually implementing their plan's goals, objectives, and methods in their venture. If so, writing the business plan becomes "just"[2] a symbolic exercise written to please stakeholders (e.g. Stinchcombe, 1965; Singh et al., 1986; Aldrich and Fiol, 1994; Zimmerman and Zeitz, 2002; Delmar and Shane, 2004).

When companies want to comply with new management practices while simultaneously keeping their existing operations as undisturbed as possible, they may engage in loose coupling (c.f. Weick, 1976; Meyer and Rowan, 1977; Orton and Weick, 1990). By loose coupling of the business plan, we refer to how new ventures adopt business plans as a symbolic signaling device, while insulating their daily operations from the constraints of a formal plan. Its relevance for business plans in new ventures can hardly be understated. As Hallet and Ventresca point out: "The imagery of loose coupling challenged the assumption that organizations operated with intentional plans, clear means-end goals, responsiveness, and coordination" (2006:910). Signaling, by relying on greater formal qualifications, for example, is theorized as one method by which external actors assess the cognitive abilities, perseverance, and general productivity of the individual (Spence, 1974). Much like an elaborately designed book cover may signal to potential buyers that the contents are worth their attention, business plans signal potential investors, employees, and even customers, that the nascent business is bona fide and worth their consideration. For example, some research indicates that venture capitalists base their judgment primarily on the first few pages of a plan (Shepherd and Zacharakis, 1999; Zacharakis and Shepherd, 2001). Outside observers, such as venture capitalists, may therefore mistakenly interpret loose coupling as an indication that the organization is using the business planning tool, when in fact, the intent of maintaining a loose coupling strategy is to signal that the organization complies with a specific standard or behavior without *actually* complying.

Business plans are enduring, widely spread, non-economically rational activities, and as such bare the signature marks of highly institutionalized behavior. This warrants the institutional perspective on new ventures which we take in this study. We thus take a keen interest in how the external environment influences the behavior of new ventures. Up until recently there has been scarce interest in how the external environment shapes new ventures. Studies have primarily been interested in the internal conditions of the startup firm, focusing squarely on the owner's traits and/or behaviors. The problem is not that entrepreneurship researchers are preoccupied with the individual/firm level of analysis as Jones and Wadhwani, (in press) suggest, but that context is insufficiently examined due to an overemphasis on individual agency. When environmental context is examined, it is typically of a macro, regional nature, as in the studies of regional and industry characteristics (Dobbin, 1994; Chen and Lin, 2006; Saxenian, 1999) and the examinations of institutional social networking (Yang, 2004; Saxenian and Li 2003). Missing from the literature are empirical studies that examine how the external environment influences the internal institutional processes that occur within an organization over time — the research gap we attempt to fill with this study.

We specifically take a strategic institutional perspective, as we are interested primarily in how actors in new ventures deal with institutional pressures. While the question of how new organizations deal with institutional pressures has been a central premise of institutional theory for considerable time (Meyer and Rowan, 1977; Meyer et al., 1979), the

[2] We write "just" in quotations, because the symbolic adherence to business planning is neither simple nor unimportant. On the contrary, writing business plans is often perceived as useful, difficult and time consuming. "Just" is used to indicate circumstances when a plan is not used for the internal coordination of a new venture, is not written for implementation, and is not adjusted to reflect ongoing changes in the organization.

empirical focus has historically been on larger, more mature organizations established global environments. Institutions are sometimes even equated with old organizations. More recently, institutionalization, manifested as organizational legitimacy, has been of interest to scholars who attempt to understand how institutional processes generate the required action to support the growth and survival of new organizations (Shane and Cable, 2002; Zimmerman and Zeitz 2002). We apply this new theoretical thrust to an in-depth study of independent new ventures.

3. Strategies for dealing with institutional pressures

As previously described, business plans are widely diffused management tools for new ventures in their environments. In this study we argue that a strategic institutional perspective provides the most appropriate means for explaining the diffusion and ubiquity of the business planning paradigm. In the sections that follow, we describe the foundations of a strategic institutional perspective as developed in organizational theory, and then proceed to explain how this theory can be applied to the study of business planning behavior in new ventures.

Because the pressures on new firms to write business plans is ubiquitous throughout the industrialized world, and because new ventures are constrained by liabilities of newness, theory suggests that new ventures will conform to the standards of writing business plans (Stinchcombe, 1965). However, new organizations are also assumed to be creative, establishing new ways of dealing with institutional pressures. Thus, we turn to a strategic choice perspective for deeper understanding of how new ventures may deal with business planning.

Some research in the field of strategy argues that organizations possess freedom of strategic choice (Pfeffer and Salancik, 1978; Pfeffer, 1987: Pfeffer and Salancik, 1997). Inspired by resource dependence theory, recent studies within institutional theory acknowledge variations in organizational responses in the face of institutional pressures (Oliver, 1991; Bigelow and Stone, 1995; Montgomery and Oliver, 1996; Ang and Cummings, 1997). While institutional pressures are generally considered isomorphic (e.g. influencing new ventures to write business plans and thereby generating a situation where all new ventures eventually produce and follow a business plan), organizations must sometimes employ different strategies to balance contradictory pressures from their competitive and institutional environments. In the case of extensive requirements for business planning, it is easy to imagine a new venture that becomes mired in attempts to plan every possible contingency, while neglecting the need to get inside the environment and actually conduct business (C.f. Sarasvathy, 2001; McGrath and McMillan, 1995).

Conceptualizations of new ventures often depict them as rule breaking and innovation prone (Acs and Audretsch, 1990; Utterback, 1994). This is important, as breaking established industry norms and rules represents an important source for economic growth and prosperity (Schumpeter, 1934). New ventures benefit more from “flying by the seat of their pants” than the causal processes implied by business planning (Sarasvathy, 2001). An empirically exhaustive account of how new ventures deal with business plans needs to include both conformist and frame-breaking behavior. One way of including both is to assume that they are expressions of different strategies to confront institutional pressures.

Theorizing around institutional strategies often assumes that legitimacy is a resource, and therefore, efforts have been made to link it to resource dependence theory (Oliver, 1991; Suchman, 1995; Zimmerman and Zeitz, 2002). A central issue in institutional strategy literature is explaining how an organization assures a stable supply of legitimacy, and how it can become less dependent on the provider of this resource (Pfeffer and Salancik, 1978; Scott, 2001). The resource dependency argument may be particularly appropriate for new ventures, as they are assumed to be resource scarce and weak in power, and therefore given few options other than conforming to their environments (Aldrich, 1999).

Oliver (1991) suggests five strategies loosely connected to resource dependence theory, as follows: acquiescence, compromise, avoidance, defiance, and manipulation. Acquiescence regards obeying rules, while compromise implies negotiation with stakeholders. Avoidance requires a change of organizational goals, and defiance implies an attack on the institutional source itself. Finally, manipulation refers to organizations that dominate and alter institutional processes. We discuss these strategies and operationalize them in the methodology section (see Table 3).

Suchman (1995) suggests three different types of legitimacy: pragmatic, moral, and cognitive, and introduces various ways in which an organization can achieve them. Perhaps most relevant to the present study of entrepreneurial organizations are the theoretical developments of Zimmerman and Zeits, (2002). They propose four strategies that new ventures can use to gain legitimacy: conformance, selection, manipulation, and creation. Although conformity, selection, and manipulation closely follow Oliver’s framework, creation warrants some elaboration. Zimmerman and Zeits (2002) argue that organizations in general, and new ventures specifically, gain legitimacy through a strategy of creating and offering innovations to the market place. Legitimation becomes a resource, with organizations exercising a strategic choice in the type and amount of legitimacy they possess. They do this either by modifying their own activities and organizational attributes, or by altering the external environment. We will initially use Oliver's framework to help illuminate new venture strategies, and conclude with a discussion of the strategy of creation, supporting Zimmerman and Zeits's (2002) contention.

While a strategic choice perspective increases our understanding of organizational responses to institutional pressures, it runs the risk of diminishing the distinctive properties of institutions and their taken-for-granted, matter-of-fact like status (Goodrick and Salancik, 1996). If a particular task is taken for granted, such as proper referencing for academic journals, or a dress code at work, it becomes extremely difficult to use as a strategy. The strategic choice perspective to institutionalization may underemphasize the process aspects of institutionalization.

The relationships between strategic choices and performance are also poorly understood. Several studies have investigated the relationship between conformity and performance outcomes such as legitimacy and efficiency (Scott, 2001). Conformity is theoretically assumed to be important for new ventures to overcome liabilities of newness (Stinchombe, 1965; Aldrich and Zimmer, 1986). However, these effects have rarely been theoretically tested. More importantly, the consequences of alternative strategic responses, such as loose coupling, are rarely studied. Loose coupling is difficult to study from a distance, as it is intended to appear to outsiders as a conformist response. This suggests that care should be taken to understand the process by which institutional pressures affect an organization, how they are dealt with, and what the outcomes of institutional activities are. It requires in-depth, process-orientated investigation of behavior, written artifacts, observations, and interviews (Røvik, 2000).

To develop an increased understanding of how new ventures deal with institutional pressures, we conducted a longitudinal, in-depth case study of six young ventures situated within a single university-associated business incubator in Sweden. The incubator environment highly encouraged the writing of business plans, and was supported in the encouragement and assistance of business planning by the associated university. The incubator had a limited amount of nascent ventures sharing a homogeneous institutional environment. We describe our methods in detail in the following section.

4. Method

We used a research design employing a multiple case study. Six new ventures within the same institutional environment were investigated. Data were gathered through interviews along with observations longitudinally, investigating symbolic responses to business planning pressures as a process over time. Data were detailed, contextual, and vital in understanding the motivations and activities of the respondents, although the sample size was, by necessity, relatively small. In-depth case study usually focuses on fewer cases, but with more attention and detail in each case (Dodd, 2002; Siggelkow, 2007). There are several reasons why we opted for this methodology. This research involves asking why entrepreneurs write business plans, with a particular emphasis on the symbolic adoption related to business plan activity. In-depth case studies are particularly well suited for investigating questions that have not been asked before (Gartner and Birley, 2002), and as these are research questions that have not been previously studied, this methodology is warranted.

In-depth case methodology is also appropriate in answering questions where other methodologies have difficulties resolving their research question ((Eisenhardt and Graebner, 2007; Gartner and Birley, 2002). The relationship between business plans and performance is one such field. Research on the relationship between planning and performance in new ventures has been inconclusive (Castrogiovanni, 1996; Ford et al., 2003). As previous research in the area has predominantly been based on survey methodology (Carter et al., 1996; Lumpkin et al., 1998; Delmar and Shane, 2004; Lange et al., 2004), existing studies have failed to fully understand how business plans are used, as a result of common method variance (Campbell and Fiske, 1959). Studies employing a quantitative approach are unable to differentiate whether or not the plans the entrepreneurs have written are realistic, used symbolically, or effectively updated. Notably, the normative literature on business plans indicates that many new ventures do not update their business plans, and that their plans often are unrealistic (Poon, 1996; Stevenson, et al., 1999; Timmons, 1999; Lambing and Kuehl, 2000; Wickham, 2001; Kuratko and Hodgetts, 2001). While this literature often suggests that new ventures should strive toward better realism and repeated revision, it also strengthens the observation that many entrepreneurs write business plans that fail to correspond to the needs of their current business. The inconclusiveness of previous, survey-based research indicates that problems explaining the relationship between business plans and performance could be due to a common method bias induced by this method. Therefore an in-depth process study is warranted to resolve this methodological bias.

It is generally understood that the key judgment of a qualitative study (and perhaps also for a quantitative study) is the extent to which it can help us understand a situation that would otherwise be enigmatic or confusing (Eisner, 1991; Siggelkow, 2007). Specifically, this study is guided by a critical realist perspective. Therefore, it becomes an important research goal to question what is taken for granted, and such research develops from a dialogue between different opinions (Bhaskar, 1978; Sayer, 2000). In this study we contrast the taken-for-granted view that business plans are a very useful tool for new venture management with an institutional view, claiming that new ventures only write business plans because their external environments demand it.

Our objective in this paper is to investigate different strategies used to confront institutional pressures. On the surface, conformity to institutional pressures, and avoidance, will look quite similar. In fact, this is the main premise of loose coupling. Thus, it is necessary to acquire a significant amount of in-depth knowledge about an organization in order to distinguish between different institutional strategies. Therefore, we considered self-reported measures as non-satisfactory for the understanding and examination of loose coupling. For example, respondents may want to appear more coherent, and thus fill in their surveys in what they believe to be a consistent way. We elected an in-depth study to collect data on speech, behavior, and writing over a period of time, enabling us to pick up any inconsistencies between written business plans and the actual behavior of the new firm over time. This reduces our vulnerability towards the respondents attempting to be something they are not.

There is little in terms of an established shorthand for describing rigor in qualitative studies (Stewart, 1998; Weick, 2007). Our ambition was to provide an extensive and detailed account of how data were collected and analyzed, to enable the quality of the study to be properly assessed (Lincoln and Guba, 1985). In the sections below, we cover the sampling procedure for this study, including the data-collection process. We have taken particular care in describing our analysis method in order to assist future replication.

4.1. Sample

This research studied six new ventures located in a university incubator over five years. We consciously selected companies that were as similar as possible in terms of organizational field, previous startup experience, industry, local startup environment conditions (Honig and Karlsson, 2004), and executive migration (Kraatz and Moore, 2002), in order to reduce variability that might influence organizational responses to institutional pressures. We follow the logic of controlling for extraneous variation suggested by Eisenhardt (1989) and Gilbert (2005). This logic is also suitable for the theory at hand, as institutional pressures likely vary significantly between institutional fields (DiMaggio and Powell, 1983).

Companies were all less than two years old at the start of the research; they were founded by inexperienced entrepreneurs, and kept the same CEO throughout the study. All of the ventures were situated on the same floor, and in the same building. The respondents were predominantly in their 20s, male, and with a university degree. The demographics (indicated in Table 2) were fairly homogenous for the entrepreneurs and other actors influencing them, such as the incubator managers, bank officers, and accountants. The companies studied were small; none could be defined as high-growth; their managers were inexperienced as entrepreneurs.

Context specificity plays a central role in this study, as the behavior of entrepreneurs is influenced by the specific actors with whom they interact. However, as we focus on the micro environments of the specific new organizations, we are not well equipped to discuss the macro environment of the specific region (e.g. Venkataraman, 2004; Vanhaverbeke, 2001). Previous studies in entrepreneurship have been biased towards studies of highly successful, high-tech businesses, often in unique geographical areas such as Silicon Valley and the Boston area (Jones and Wadhwani, in press). Therefore, the generalizations that have been developed are using empirical evidence from exceptional and atypical industries and locations. The companies in this study avoid such a bias, as they are neither post hoc success biased, nor are they sampled on their particular industry. They represent very young ventures, led by inexperienced entrepreneurs, located in a medium-sized Swedish city. We argue that these firms, and our subsequent findings, represent a reality closer to the majority of new firms established. Research on nascent entrepreneurship corroborates this point of view (Gartner et al., 2006).

4.2. Data collection process

This study collected data in form of semi-structured interviews, archival data, and participant observations over a five-year period. We conducted 37 face-to-face interviews with company managers, as well as external capital providers, government assistance agencies, and consulting professionals. When available, we also collected business plans and examined them in several different versions. We sat in on a number of meetings with external financiers as non-participant observers, collected company descriptions of all new ventures from the Internet, and conducted observations at joint incubator activities. We also had a number of saved and recorded email conversations with incubator managers and new venture managers. All data collected were added to and analyzed in a NUD*ist 4.0 database, following the methodological structure used by Gilbert (2005). We proceed to describe these data collection methods in more depth in the following discussion.

4.3. Interviews

Interviews were 45 to 90 min in length, with several actors in each firm, including owners/managers and employees. Additional interviews were conducted with actors that the respondents made reference to, as having been important for their firm with respect to business planning. These included interviews with incubator managers, bank lenders, accountants, and government support organizations. The main aim of these interviews was to understand how the business plan concept traveled from external sources to the focal ventures, and how they were used by the focal ventures. Investigating external sources was important to us, because when institutional myths travel, they are often translated and reinterpreted (Czarniawska and Joerges, 1996). Thus, we were uncomfortable relying exclusively on entrepreneurs to provide an accurate account of their planning activities.

We held open discussions and asked follow-up questions when respondents touched upon topics related to our coding templates. This method maximizes the mutual understanding that can be gained between interviewer and respondent (Fontana and Frey, 2000). All interviews were recorded and transcribed, added to the case database, and filled the requirements for the use of exact quotations (Rapley, 2004). Interview templates are available upon request.

4.4. Archival documents

Over 1000 pages of archival documents were collected. These included written business plans, newspaper clippings, promotional material, budgets, company descriptions, and ownership agreements. These documents were essential for investigating loose coupling, enabling the comparison between formal written documents, observations, and interviews. They also provided a valuable source of data by offering a method of cross-checking the respondents' statements. All archival data were stored in binders, and when possible, converted to computerized text and added to the case database. We also stored a number of email conversations that were held between the researchers and respondents.

4.5. Participant observations

Over two years, from fall 2002 to spring 2004, we attended meetings between external funding organizations, incubator celebrations, visits to the offices of all respondents and informal coffee meetings. Observations were recorded in a small notebook, transcribed and added to the case database. These observations were helpful to understand the respondents' situation. They also enabled the development of better interviews by keeping the researchers up-to-date with what happened in the incubator.

Table 1
Overview of the New Ventures

Firm	Alfa	Beta	Gamma	Delta	Epsilon	Seta
Industry	Web design	IT-consult	Media product	Stock trading	Public relations	Light engineer
Size when founded	2	2	3	1	1	2
Founding year	2000	2000	2001	1999	1999	2000
Status 2004	2 E	1 E	3 E	T	T	2 E
Status 2006	T	T	T	T	T	2 E
Written plan	Yes	Yes	Yes	Yes	No	No

E=employees: T=terminated

4.6. Short description of companies

Six focal companies were studied. In the first part of this study, we compiled extensive case descriptions of each of the ventures. These case descriptions gave us an initial understanding of the ventures themselves. However, in order not to overwhelm the reader with detailed descriptions of all elements of the data in this study, we provide brief summaries of the companies in Table 1, and verbatim quotes provided by the respondents in the findings section.

Actual company names are replaced using the Greek alphabet, beginning with Alfa, in order to protect the identity of the companies. Table 2 includes short descriptions of the six focal companies, what industry they are in, how large they were when they started, and when they were studied. The companies were engaged primarily in service industries. Four out of the six wrote business plans. Pseudonyms for the respondents are used throughout the study. A list with short descriptions of the persons in the study, their background, and when the interviews were conducted, is provided in Table 2.

5. Analysis and analysis method

The analysis began with a preliminary theoretical framework derived from the extant literature (Oliver, 1991). While the role of theory in in-depth research varies, several authors have argued for the use of theory a priori (Yin, 1989; Eisenhart, 1989). In fact, it may be difficult to avoid theoretical bias, as observations are colored by the preconceptions of the researcher; that is, observations are theory-laden (Hanson, 1975). The best one can do, therefore, is to make these preconceptions and biases explicit (Strauss and Corbin, 1990; Sayer, 2000). To explain one's guiding theoretical framework does not prevent the possibility of new interpretations and theoretical contributions (Eisenhardt and Graebner, 2007). On the contrary, theoretical frameworks open up for multiple interpretations, and interactions between theory and empirical observations are necessary to understand when new insights are created and when established theories are still appropriate.

Analysis followed two essential tracks: a coding portion consisting of theory-driven coding and empirically driven coding, and an abstraction part consisting of longitudinal description and interpretation. We conducted counts of the

Table 2
Respondents overview

Respondent	Born	Education	Firm	Sex	Role	Interview dates (year/month)
Andy Andrews	1960	High school	Alfa	M	Owner/manager	02/05; 02/11;03/06
Adam Adamson	1960	Business school	Alfa	M	External Equity	01/11
Aron Aronson	1970	Computer engineering	Alfa	M	Owner/manager	02/08;02/11
Brad Bonner	1970	Business Informatics	Beta	M	Owner/manager	02/06;03/06
Bob Benson	1970	Business Informatics	Beta	M	Owner/manager	02/11
Daniel Drew	1970	Business school	Delta	M	Owner/manager	02/05;02/09
Erika Erikson	1970	Communication	Epsilon	M	Owner/manager	02/08; 02/11
Eva Evanston	1970	Communication	Epsilon	F	Employee	02/11
Gabriel Gerber	1970	Computer engineering	Gamma	M	Owner/manager	02/11;02/11;02/12; 03/06
George Goulding	1970	Computer engineering	Gamma	M	Owner/manager	02/10;02/11;02/11;03/06
Gary Gray	1970	Communication	Gamma	M	Owner/manager	02/10;02/11;03/06
Isac Inkles	1970	Business school	SPG	M	Incubator Manager	02/04;02/12
Ivan Ivanovic	1970	Business school	SPG	M	Incubator Manager	02/12
Jenny Jennyton	1970	Business school	SPG	F	SPG manager	02/04;02/12
Joe Joeman	1970	Business school	Rho	M	Industrial peer/friend	03/08
John Johnsson	1970	Business school	SPG	M	Incubator Manager	02/04
Joel Joelson	1970	Business school	SPG	M	Incubator Manager	02/04
Larry Letterman	1970	Business school	Lamda	M	Banker	03/06
Lena Long	1970	Business school	Lamda	F	Banker	03/06
Mathew Midding	1950	PhD Engineering	SPG	M	SPG manager	02/03
Osgood Osman	1960	Business school	Omega	M	Accountant	03/06
Omar Omarsson	1970	Business school	Orion	M	Accountant	03/06
Samuel Samson	1960	Lighting engineering	Seta	M	Owner/manager	02/05;02/09;03/06
Stuart Stuartson	1970	Lighting engineering	Seta	M	Owner/manager	02/05;02/09;03/06
Tess Tesson	1970	Communication	Theta	F	Industrial peer/friend	02/12

number of sentences coded regarding specific concepts, indicating which concepts the respondents were talking about most frequently. The researchers followed predefined coding rules in order to decrease arbitrary judgment. These coding rules can be found in Table 3 below.

Despite these measures, however, this method suffers from "elitist/researcher" interpretation bias. The alternative method would have been to let the respondents interpret their own behavior, however, this was ruled out because avoidance, compromise, and manipulation strategies could be seen as "bad" behavior, and acquiescence and defiance as "good" behavior. Respondents would therefore be prone to overemphasize acquiescence and defiance and suppress other strategies.

The elitist/researcher interpretation bias was reduced by conducting several interviews with the same respondents, enabling us to develop a trusting and friendlier interview environment. In addition, we were able to check current statements with previous ones and see if they were consistent. We conducted interviews with non-focal actors, enabling us to cross-check statements the respondents gave with those of other respondents. We compared what they said with what they actually did by carefully observing the respondents' actual behavior. Longitudinal descriptions were conducted to understand and illustrate how the companies dealt with business planning pressures over time. We closely read the data material, and time-stamped it subject to the respondents' own chronological records and with respect to the dates of our interviews. Conducting interviews over an extended period of time (five years), we were able to understand and interpret the developments in their attitudes and behavior.

5.1. Analysis of strategies: counts and double coding

Although little is known regarding how entrepreneurs actually use business plans, we believe that our theoretical framework provides a useful starting point towards understanding how they *could* be used. In this study, the coding of strategies followed a theoretically predetermined coding template. NUD* ist 4 was used as an aid to keep track of the analysis. QSR NUD*ist is a computer software package designed to aid users in handling non-numerical and unstructured data in qualitative analysis by supporting processes of coding data in an index system, searching text and patterns of coding, and theorizing about the data. Of the coded sentences, most were coded in one or two categories. We kept track of sentences grouped in theoretically structured codes and open codes. Further, all codes were named such that they could be identified by the individual, company, type of data generating technique, and date of generation. It should be noted that using NUD*ist and theoretical pre-understanding does not make theoretical development impossible. On the contrary, we believe that it facilitates the possibility of clarity in the interpretative framework for theoretical development. For example, manipulation was not coded a single time, indicating that manipulation was not a viable strategy for the investigated firms. Our close reading confirmed this. We also used the NUD*ist option for developing new theoretical concepts, so-called open coding.

We read through all the data material and coded it into several categories. This study focuses on how the firms dealt with the institutional pressures to write business plans. Text was initially coded according to the following strategic categories: acquiescence, compromise, avoidance, defiance and manipulation. Table 4 shows how many of the

Table 3
Institutional strategies: definitions and coding principles

Concept	Definition	Coding principle
Acquiescence	Acquiescence is the action taken by a firm to conform to institutional pressures	Behaviors, plans, and talks taken to conform to the institutional pressure to write business plans will be coded here. Copying role models, adopting behavior according to business planning literature and compliance because of rules.
Compromise	A compromising strategy where the firm tries to reduce the extent to which conformity is necessary	Attempts to renegotiate reduce and balance the extent to which conformity is necessary between the firm and its external constituents.
Avoidance	Avoidance is the attempt to preclude the necessity to conform to institutional pressures.	Concealing non conformity, avoiding resource providers demanding business plans and speaking positively toward the future implementation of a plan.
Defiance	Defiance is an active response to an institutional pressure where nonconformity is openly admitted.	Expressed alienation to business plans in interviews, meetings with stakeholders and colleges. Arguments questioning the legitimacy of business plans.
Manipulation	Manipulation is an active response where change of the institution itself is the goal.	Behaviors, plans, and talks taken to influence different stakeholders not to conform to the institutional pressure to write business plans.

Table 4
Strategic responses in number of sentences

Number of sentences	
Acquiescence	310
Compromise	555
Avoidance	372
Defiance	114
Manipulation	0

sentences coded in one category were also coded in another, and in the diagonal, it shows how many sentences were coded in each category.

Table 4 above supports what we initially suspected and subsequently observed: none of the companies were attempting to manipulate their institutional environment. Manipulation of institutional pressures is a resource-intensive strategy, and none of the investigated ventures had sufficient resources to engage this strategy. Therefore, manipulation was dropped from further analysis. (We will return, briefly, to discuss manipulation in the conclusion section.) We can also see that the category "compromise" has the most codes, indicating that this was the strategy business owners talked about the most. There were several sentences coded as acquiescence and avoidance, and a bit fewer as defiance.

5.2. Analysis of strategies: Alfa

There were several influences that lead Alfa to write a business plan from the start. Andy Andrews had written one in a previous business he was involved with. Even so, the business plan for his current project was only completed when the company started to look for external capital. The plan was written from a template brought in to the firm by two business school students, both team members in the very early development stages of the firm. While Andy had previous experience in writing business plans, it was Adam Adamson who expressed the most positive attitudes towards it. Once written, the plan had limited external usefulness. It was shown only to some students and one external capital investor. The students used it to solve a class assignment. The capital investor read it briefly and then asked for a one-page summary instead, highlighting the most important events of the year, and the main directions for the next year. Internally, it was difficult to disentangle the actual use of the business plan in Alfa. Adamsson indicated on several occasions that he believed that the company would have benefited from using the business planning tool more, in their day-to-day business. Subsequent interviews supported the use of the business plan as a symbolic tool for conforming to institutional pressures, rather than a functional utilitarian tool.

For example, the following dialogue regards the role of the business plan when orienting Alan Alantown, a new employee, into Alfa[3]:

> Interviewer: Has Alan Alantown been informed about the business plan?
> Andy Andrews: Yes he knows what it is about.
> Interviewer: Did he read the document?
> Andy Andrews: No.
> Interviewer: But you briefed him about the business verbally?
> Andy Andrews: He understands. He will learn on the way. Andy Andrews 20030624

The interviewer's interpretation of Andrew's attitude towards business planning shifted during this short episode. The quote is significant as it indicates that symbolic conformity is present, and proves the need for in-depth interviewing in order to fully understand the phenomenon. The quote suggests that Alantown had not been briefed about the formal business plan, that it did not play a significant role in Alantown's orientation into the company. It also shows that Alantown initially had an intention of concealing his low level of conformity to the business planning institution. It is likely that the business plan played a consistently symbolic role, and was never actually intended to have a functional role. In 2007, the company had no employees, a turnover of about $80,000 US a year, and no profit. It

[3] Alantown was a new employee that took over after Aron Aronson left Alfa, in December 2002.

is now a shell, but as the website is self-sustaining, it still provides some income from advertising and has some 1000 hits a day. Andrews started a newspaper business in 2006. His new company had six employees at the end of 2006. He did not write a business plan for his new business, nor had he ever updated Alfa's business plan.

5.3. Analysis of strategies: Beta

Brad Bonner and Bob Benson initially had the idea to create a web portal for the students at the university. It was with this idea they approached a manager at the incubator. The incubator manager encouraged them to think bigger, and suggested that they create a web portal that could be common for all students in Sweden. With a wider market, they could potentially reach venture capitalists, and in this way expand quicker. The incubator manager suggested that they start with writing a business plan in order to gain access to external capital. With plenty of assistance from the incubator manager, the founders started to write an extensive business plan in order to insure external funding. The idea for the company evolved to maintain a conglomerate of ideas in a web-based form, under the same roof. This idea was partly driven by the urge to have a growth strategy, and also by predecessors in the incubator who had been successful with a similar strategy.

The founders of Beta wrote a business plan in the startup phase of the business in 1999, as they were attempting to get venture capital. Armed with the business plan, they met with several external capital providers and achieved some success, receiving a proposal from a venture capital company. The venture capital company offered to match any capital the owners provided in a 50–50 split. Practically, this meant that the owners would have to invest a substantial stake in the business themselves, or attempt to get bank loans. Evaluating the proposal for venture capital during the summer made them realize that the risk involved in attracting venture capital was too big. After that, they did not refer back to the business plan again:

> We have not used any [plan] after that. From the moment we realized that we were not going to get any money, we gave up. We have never thought about it again. Brad Bonner 20021115

In 2002, Benson and Bonner indicated that their business did not really need a business plan anymore. They said that it took too much time to write a business plan which would be of little use. Their initial motivation to write the business plan was to obtain external capital, but since they were no longer looking for external ownership capital, they didn't bother. The original company idea was terminated, and the key business became web consultancy. Since their initial idea, they abandoned all attempts to write business plans. In fact, they saw their initial business planning focus as having a negative influence on their business, leading them away from thinking about day-to-day operations and support, which they described as their "delusions of grandeur." Despite recognizing certain potentially negative effects of writing one, they still held mixed attitudes towards a business plan, arguing that it might help their business in achieving focus.

At the last contact with Beta in 2007, Bob Benson joined the Swedish reserve officers training and Brad Bonner went to work for another firm in the incubator. Brad said that he still believed that business plans could be useful for marketing purposes.

5.4. Analysis of strategies: Gamma

Gamma had just barely started when we first interviewed them. They were heavily involved in developing their first business plan, and got significant assistance to do so by the incubator managers and business friends and colleagues. The incubator managers provided them with the book *Affärsplanen* (*The Business Plan*, Kubr et al., 2000), published by McKinsey and used in the business plan competition "Venture Cup" (the largest business plan competition in Europe). A shorter business plan template was provided by a business colleague and instructor at the affiliated university. This template was used as a base for their business plan, and *Affärsplanen* was used as reference guide. All three of the managers were fairly enthusiastic about the business plan in the beginning, even though Gary Gray, with his communications background, took the leading role in writing it. He also indicated to us that he was surprised that business plans were not talked about more in the incubator, suggesting that there should be more of a focus on them. For Gamma, the plan was used externally in order to procure funding from a business bank. While the banker, Lena Long, was positive towards the business plan, she told us that there was nothing in it that she could use as a basis for making a loan decision. She informed us that loan approvals were based on collateral, personal income, and track records. Even so, when we first interviewed them, the Gamma managers expressed a clear intent to continue to use their business plan as a management tool.

Gamma had written their business plan when they were first interviewed, at the beginning of their business life-cycle. The Gamma managers were positive regarding business planning, and we characterized their attitude towards planning as most closely approximating acquiescence. For example:

> It feels like it is a tool, really. We feel that it can really be used. We want to revise it, such that it really is solid and changeable. It feels like it has been the goal and how we have gotten there in some way. Gabriel Gerber 20021210

One probable cause of Gamma's optimistic attitude at the time of their first interview was that the company received several positive reactions to their plan. Over time, however, we observed that the acquiescence shown by Gamma eventually deteriorated into compromise. While early interviews (Goulding, 200211 and Gerber, 200212) demonstrated acquiescence to the planning paradigm, later interviews indicated a transition to compromise and loose coupling (Goulding, 200306). Further, during informal discussions with Goulding in 2004, he indicated that no changes had been made to the business plan since it was first written. We see this as a very strong indication of the actual internal processes at work, as we predicted that the interest in business plans would decrease over time.

Views at Gamma indeed changed over time, and during subsequent interviews, Gary Goulding reported that the business plan had not been used, updated, or even examined since the time they first wrote it. Gamma made no changes to its business plan in 2004 (since then, we have been unable to reach them by either email or telephone). Thus, all of the companies writing business plans showed similar trajectories. Business plans were written early during the business cycle, in some instances before the actual company was started. But none of the entrepreneurs updated their plans once they were written, and there seemed to be little if any intrinsic motivation to write or update the business plan. This lends further support to our theoretical framework suggesting that the business plan practice is driven primarily by institutional pressures, as opposed to advantages brought about by intrinsic motivation.

5.5. *Analysis of strategies: Delta*

Delta was founded by three business school students in 1999, and the business plan was written right from the start. At the time, there was a lot of positive spirit in the incubator, as Rho and Jota, two other companies in the business incubator, were able to get a significant amount of outside capital. Inspired by their business model, Delta wrote a business plan before starting their business. Their initial goal with the business was to get external funding for it. They were quite successful in procuring external capital with the assistance of the business plan. However, shortly after procuring the funds, things started to turn worse for the company. The managerial team started to break down, and some investors pulled out. At the time of the initial interviews in 2002, only Daniel Drew was left in the company.

Drew indicated that the business plan was important, and gave us the impression that he tried to actively and constructively rely upon planning during our first interview with him. He indicated that the business plan was not externally coerced, but that they did it voluntarily because they felt the company needed it. We believe that the described internal demand is partly an effect of their university education in business planning. All three managers of Delta, at that time we interviewed them, were also students at the business school and had participated in a course on business planning:

> We wrote a business plan right at the beginning, we were professional and serious. It was not as much an (external) demand, but it was an internal demand from the three of us. Daniel Drew 20020524

> He was proud of his business plan, but could not show us a copy when we asked for one:

> The basic structure is… [he looks for the business plan and mumbles and can not find it. He promises to keep trying to find it]. Daniel Drew: 20020524

Despite reminding him about the business plan on three other occasions over a two-year period, Drew was never able to find it and show us a copy. We don't doubt that Drew wrote a business plan, nor his sincerity in attempting to find it for us. However, his failure to find a copy demonstrates that the business plan no longer played an important role in the actual operation of the company. The company was terminated in 2004, when Drew moved to the US.

5.6. Analysis of strategies: Epsilon

Epsilon was one of the two companies in this study that did not have a written business plan. Erika Erikson never wrote a business plan for her business, even though she felt significant pressure to do so from her environment. Both her good friend Tess Tesson, as well as her personal mentor, suggested that she write one.

Erica was the entrepreneur who most actively resisted the pressure to produce a business plan. She associated business plans with the Internet bust, the subsequent breakdown of aspects of the venture capital industry, and the bankruptcy of some fast-growing new ventures. She indicated that she didn't like the types of companies involved with writing business plans. She felt that companies that wrote business plans were associated with behavior that clashed with values deeply rooted in Swedish culture. The reference below to the white wine at breakfast is given to emphasize the differences between the entrepreneurs:

> They wrote a lot of business plans, applied for a lot of money. [They had] white wine for breakfast… It was nothing for me. Erika Erikasdotter 20020823

In Sweden, to drink in the morning, especially on a working day, is an apparent break with traditional Swedish culture, which strongly disapproves of drinking on weekdays, and even more so during mornings.

Some of Erica's negative attitude may be understood as based on what happened to companies she associated with business planning. She attributed their failure to the fact that they wrote business plans, instead of doing "real" business:

> Instead they wrote a lot of business plans, and then they applied for venture capital, and then when they got it and it was withdrawn, they went bankrupt. Erika Erikason 20021119

In contrast to Seta, below, Erika made a conscious decision not to write a business plan. While her business continued to do very well in 2005, she closed it down when she decided to move abroad with her boyfriend. She reported never writing a business plan for the company, however, she did concede that her board encouraged her to do extensive planning in the form of goal-setting and annual follow-ups of those goals.

5.7. Analysis of strategies: Seta

Seta is the second company in this study that did not have a business plan. Seta was founded shortly before the first interviews that were conducted with them, so it was a very new firm when we encountered it. They represented a special case in this study, as they were much less aware of the business plan institution than the other companies we observed. Seta provides an example of a non-conformist response to institutional pressures. In Seta, the owners were unaware of the institutional pressures to produce a business plan, as opposed to making an active choice not to produce a business plan:

You asked me if I heard about business plans, but I don't think I ever have. Samuel Samson 20020528

We found that the knowledge of business planning was well-diffused in the incubator. Therefore, this response surprised us somewhat. We deem it unlikely that managers in Seta had not been exposed to the business plan institution. After all, seminars on how to write a business plan were held annually or biannually, and were officially announced in the incubator with wall posters, as well as through general emails to all incubator companies. Samuelsson was an artist and Svensson went to lighting school directly after high school. They had no background in business studies or business-related courses. Seta's business idea closely followed their core competences. Both had a degree in lighting engineering from college, and both had experience consulting in outdoor lighting projects for old and new buildings. The company was doing very well in 2007. The owners still did not intend to write a business plan, and they jokingly indicated that they would not do so until "the King of Sweden requested it."

6. Discussion

The purpose of this study was to investigate how new ventures use business plans, employing an institutional perspective. We argue that by focusing on aspects external to the organization, insufficient attention has been paid regarding what happens to management tools when they reach organizations (Røvik, 2000).

Overall, we found no instances of companies attempting a strategy based on manipulation. This strategy is practically as well as theoretically difficult for a new organization to engage in, as they rarely have the capacity to pursue such a

Table 5
Stages of business plan use

	Alfa	Beta	Gamma	Delta	Epsilon	Seta
Stage 1: business plan writing	At startup	At start up	At start up	Before start up	Never started	Never started
Year	1999	1999	2002	1998	N/A	N/A
Stage 2: business plan use	Marginal	To raise $	To raise $	To raise $	N/A	N/A
Year	2000–2001	2000	2002–2003	1998	N/A	N/A
Stage 3: business plan development	Limited	Limited	Extensive	Unknown	N/A	N/A
Year	2001	2000	2002	N/A	N/A	N/A
Stage 4: business plan deterioration	Immediate	Immediate	Gradual	Immediate	N/A	N/A
Year	2001–2004	2000–2003	2002–2004	2000–2002	N/A	N/A
Stage 5: business plan abandonment	Gradual	Gradual	Gradual	Lost	N/A	N/A
Year	2005	2005	2005	2003	N/A	N/A
Business plan activity 2006	None	None	None	None	N/A	N/A

resource-intensive strategy. We did find a few instances of companies defying the institutional pressure to write business plans. Table 5 below summarizes the processes in which the firms engaged in business-planning behavior.

We found that efforts to plan were most intensive during the startup stages of the businesses we studied. This effort rapidly deteriorated over time, and there was no indication that any of the firms made a serious effort to rekindle planning activities once the business plan was initially written. In Fig. 1 the solid line represents a rapidly declining effort in planning. The dashed line indicates the slowly decreasing correspondence between the written plan and the firm's activities, over time.

Among the organizations we studied, we observed a surprising monotonic deterioration of business planning over time. All four companies that initially set out to write business plans ended up not following them, and not updating them.

6.1. Financial performance

Contemporary business plan literature assumes a positive association between business plans and financial performance. Frequently, this positive relationship is based on an assumption that written plans have a positive effect on a firm's internal coordination and control. Therefore, advocates closely mirror arguments supporting classical administrative theory (Fayol, 1988). However, without the actual implementation of a plan, and absent regular control procedures regarding how a business follows a plan throughout its life-cycle, there is no theoretical reason to expect an ongoing relationship between planning and performance.

It has also been suggested that business planning can positively impact the performance of new venture managers by influencing their motivation, based on goal-setting theory (Delmar and Shane, 2003). However, when goals are

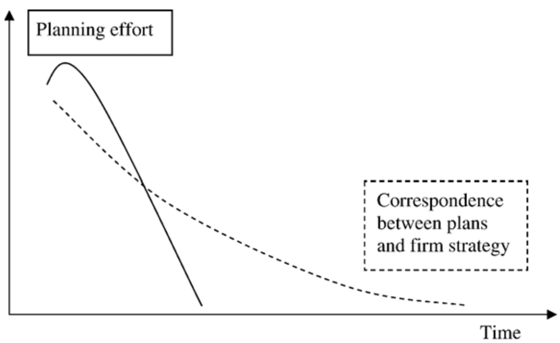

Fig. 1. Development of planning effort and correspondence between plans and firm strategy.

perceived as difficult and unspecific–as in the case of planning how best to run an emerging business for the next five years–long-term goal-setting may become detrimental to the business (Locke and Latham, 2002).

If entrepreneurial plans actually lead to improved financial performance, we would expect companies to actually use the plans they produce for internal coordination and control. Further, we would expect them to update and modify their plans as the firm develops. In the firms we studied, the companies that wrote business plans expended little effort on attempting to implement the strategies suggested in their business plans. We observed significant gaps between the plans and the actual operations of their businesses, and we found that these gaps increased over time. For the firms we studied, business planning appeared to be largely a symbolic activity, and secondarily a marketing activity.

6.2. Legitimacy

None of the studied businesses actually implemented their business plans, suggesting that firms don't behave according to classical planning norms that highlight the benefits of coordination and control. We observed many indications that the writing of business plans was due to efforts to gain legitimacy. For example, there were several instances where the institutional pressures of business planning could be traced to the university's business school. Surprisingly, the bankers and the external capital provider who we interviewed did not have rules in place forcing new companies to write plans. For the bankers, while the plan was considered positively in the evaluation, it was not nearly as important as the personal wealth of the owners, their potential collateral, and their overall estimate of repayment ability. The external capital provider for Alfa actually asked the company not to update their business plan, but rather, to use a different "one-page" document describing current issues and past performance. While neither the bank nor the external capital provider seemed to use the business plan for deciding whether to finance the company or not, the entrepreneurs believed that the business plan was an important signaling document (Spence, 1974). None of the respondents mentioned that suppliers or customers had tried to influence them to write business plans. Those in the task environment voiced even less confidence, while actors with no actual resource stake in the business (non-stake actors), such as incubator managers, consultants, and university educators, were the most positive and confident. We thus conclude that writing a business plan was only marginally important for the resource acquisition of the studied firms.

We found that entrepreneurs learned for themselves the relative value of business planning activities as their firms developed. Entrepreneurs gradually shifted their strategy from aligning with their highly planning-positive non-stake actors, to align with their "non-planning" task environment.

This study also suggests that formal business planning might actually have a negative performance consequence for a firm, as witnessed by the entrepreneurs at Beta, who wrote their business plan primarily to gain external capital. They followed a mimetic strategy (DiMaggio and Powell, 1983), as they were inspired by other firms that were previously successful in getting external capital and had written plans. Lewitt and March (1988) refer to this behavior as superstitious learning, as the actor may be falsely associating random events and infer causality. In the case of Beta, relying on both external advice as well as their own drive, they initially wrote a business plan designed to attract considerable money. They were fully aware that several aspects of their business plan were exaggerated beyond their original ambitions, and beyond what they believed themselves capable of doing. They retrospectively considered these to be delusions of grandeur, unrelated to the realities of their actual business experiences.

We also observed that entrepreneurs who initially considered the implementation of their business plan to be important learned that no one in their task environment was particularly interested in the business plan. Entrepreneurs who believed that business plans were very important for banks and venture capitalists, discovered that while important to such outsiders, they weren't essential. Thus, loose coupling represented a sufficient and stable strategy, enabling new firms to deal with the normative pressures from the business plan institution.

7. Conclusion

Our overall conclusions were that the companies we studied had a preference for only symbolically adopting the business plan tool. Initially, they used their business plans to gain legitimacy from external actors, making the companies appear structured, well planned, and established. The entrepreneurs we studied wrote business plans even though they rarely referred to them or planned to utilize them. They loosely coupled their written plans to their actual operations, and their ventures gradually became more dissimilar from their plans. Loose coupling enabled new ventures to gain legitimacy from the environment, allowing them to continue pursuing their own agendas. While the normative literature on business planning recognizes and critiques those organizations that fail to follow their business plans, we are aware of no systematic study examining the concept of loose coupling in new organizations. Therefore, this study extends the empirical grasp of the concept of loose coupling (Wieck, 1976; Meyer and Rowan, 1977; Brunsson, 1989), qualifying it in a new context. Further, as called for by Zimmerman and Zeitz (2002), we employ case studies to examine the agency of legitimacy, confirming that entrepreneurs are cognizant regarding their use of legitimating activities and the importance of legitimacy in the acquisition of resources.

This study shows that a weak relationship between plans and implementation may explain previously inconclusive results. While our findings may appear controversial in the entrepreneurship field, they are not entirely uncommon in other management studies. Quality circles, just-in-time manufacturing, matrix management, management by objectives, total quality management, and business process reengineering are examples of tools that have failed to demonstrate clear and conclusive advantages, and have resulted in considerable debate (Abrahamson and Rosenkopf, 1993; Burns and Wholey, 1993; Czarniawska and Sevon, 1996; Sahlin-Andersson, 1996; Westphal et al., 1997; Zbaracki, 1998; Røvik, 2000). However, much of this previous research has focused on investigating well-established organizations (Sahlin-Andersson and Engwall, 2002). Here, we show a similar relationship within the context of new ventures, thus extending the empirical scope of institutional theory.

Banks and venture capital providers are usually highlighted as the key sources of institutional pressures in business planning books, as in the one used by most of the entrepreneurs in this study (Kubr et al., 2000). To be fair, it is an assumption this book shares with most other books on how to write business plans (Poon, 1996; Stevenson, et al., 1999; Timmons, 1999; Lambing and Kuehl, 2000; Wickham, 2001; Kuratko and Hodgetts, 2001). While we uncovered some normative pressure on the part of these actors, it was not nearly as extensive or rule-bound as we expected. Instead, there were significant normative pressures from business schools, incubator managers, and governmental organizations. Those in the immediate task environment of the entrepreneurs, on the other hand, seemed to be indifferent to the business planning paradigm.

Our study shows that much of the literature, advice, and business plan education is based on taken-for-granted presumptions about the local business environment, rather than by empirically supported effective business practices. Future scholarship regarding the use of written business plans in new organizations needs to be aware of these implications. Understanding business planning from the three institutional perspectives discussed in this study provides important insight for entrepreneurs, policy advisors, instructors, and entrepreneurship scholars. It lends support to previous studies in entrepreneurship, suggesting that strategies of new ventures need to be adapted to the specific conditions of entrepreneurship. Because entrepreneurial firms face uncertainty, dynamic development, scarcity of resources, and vulnerability to their environment (Saraswathy, 2001; McGrath and McMillan, 1995; Honig and Karlsson, 2004), they should remain skeptical, particularly when accepting the translation of a century-old model designed for the management of governments and large mining companies (c.f. Fayol, 1988).

We also found that pressures from banks, providers of capital, suppliers, and customers were significantly weaker than we expected. Bruns (2004) suggested that business plans play a very limited role in the decision-making of bankers. Our study indicates that this could be true for several other stakeholder groups as well. We believe there is a significant risk that the difference between practice, where business plans are less important, and presumption, where business plans are critically essential, renders much normative advice with respect to business planning untrustworthy, and describes a misplaced reality for many new ventures.

The economic-rational link between planning and performance that much previous empirical research on business planning has presumed to exist is most reasonably supported when plans are actually implemented. This study shows that while many new ventures have business plans in place, these plans are frequently not followed or implemented. Engaging in planning behavior helps new ventures gain legitimacy, without disrupting the flexibility and operations of their new ventures. This legitimacy, on occasion, led to offers of additional resources, irrespective of the actual implementation of the plan. Thus, under certain circumstances, we found that legitimacy is conferred through the production of a business plan, however loosely coupled the plans were to business activities, providing the entrepreneur with a strategic tool in the acquisition of resources (Zimmerman and Zeitz, 2002) If the relationships we observed are common in other populations, this study provides an explanation as to why previous studies have been unable to generate conclusive results with respect to business plans and performance (Castrogiovanni, 1996; Ford et al., 2003; Delmar and Shane, 2004). Most quantitative, survey-based studies conducted so far have been incapable of detecting whether or not the plan is implemented and actually used, and may confound any relationships between resource acquisition and performance.

Thus, although a number of entrepreneurs were seen to employ the “correct” practice of writing a business plan, none of the ventures we studied allowed their plans to significantly influence their business operations. Our findings are corroborated by previous studies on planning and bureaucracy conducted on well-established organizations, where such linkages have already been questioned (Mintzberg, 1994; Hallet and Ventresca, 2006). It is our hope that this study serves to enhance the scholarly debate, research, and pedagogy of entrepreneurship promotion activities.

7.1. Limitations and future studies

We suspect that some readers, while being persuaded by our study, may still be uncomfortable viewing business planning as a symbolic gesture, engaged for the sake of the institutional environment. Many will yearn to see the exercise of writing a business plan as a rationally valuable activity. There is, perhaps, some hope for these believers. Because this study focused on businesses that had already started, we were unable to investigate if business planning enhances the decision-making process of entrepreneurs before they start their business. It may also be the case that the pre-startup planning process creates an escalation of commitment and enhances self-confidence. We believe that an experiment could be set up whereby one group of budding entrepreneurs receives business planning advice, while a control group does not, examining psychological and behavioral effects. Ideally, such a study would include longitudinal data to examine any possible effects, positive or negative, on entrepreneurial performance.

Other readers may view the findings in this study as particularly convincing, and generally applicable to new ventures. While this may, in fact, be the case, we cannot conclude this with any degree of certainty. Different institutional environments look differently, and pressures, task environments, and entrepreneurs may be acting in distinctly different manners. However, the study fits well within the predictions of institutional theory, and has gained face value through presentations and the review process. We hope that someone will attempt to falsify our conclusions, such that our discourse continues to stay alive, enlightening and advancing the adjudication process.

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