

## ***Connecting Stakeholders Theory and Conventions Theory to Highlight the Adhesion of Stakeholders to the Business Model of a Start-up***

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***Abstract:*** *The entrepreneur's main problem is to convince stakeholders to adhere to his project. We can explain this crucial point for the success of the future business through the entrepreneur's ability of persuasion aiming at obtaining resource holders' support: to "transform" them into stakeholders, making them adhere to the business convention he proposes is necessary.*

*The problem can be turned into a theoretical problem combining two corpuses: the conventions theory and the stakeholders theory. The theoretical problem helps understanding the exercise of persuasion that incites resource holders to adhere to the proposed Business Model. This theoretical combination is useful to conceptualize the notion of Business Model and may help entrepreneurs expose clearly their Business Model in order to "sell" their business to stakeholders. We suggest the Business Model should be conceived as the answer that might be given by an entrepreneur to the following concrete question: "How, according to your product or service offer does your business generate value for itself and for its stakeholders?"*

*In order to convince, the entrepreneur has to highlight his project's value and he has to show how this value will be shared. He needs to consider how to create value but also how to give it back (he pays for) to his stakeholders. We use those ideas (value, remuneration) in an entrepreneurial context but they may be used in other contexts, which will be discussed.*

*The text is made of two parts. First, we will remind our readers of both theories and show their usefulness in entrepreneurship. Then, we will combine them through the concept of Business Model and present the first steps of a participatory action research started in 2003 (pedagogical experience). The method we use follows Kaplan's proposition (1998). The pedagogical experience involves about 20 students of a master's degree specialized in entrepreneurship, about 300 students beginning their studies in Business School, and about 40 University students in their second level pursuing a generalist Management degree with an entrepreneurship option.*

*The research shows both the usefulness of the combination of both theories to conceptualize the Business Model and the usefulness of the Business Model in conceiving a future business: the students are more understandable while presenting their Business Model (according to stakeholders' testimony). This pedagogical approach helps youth (who do not have enough business experience) to undertake the creation of a new venture.*

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An entrepreneur's major issue is convincing resource holders to adhere to his project. In a theoretical way, this crucial stake for the success of the future business can be expressed through the exercise of persuasion an entrepreneur has to deploy aiming at receiving the adhesion of resource holders to make them real stakeholders. It is necessary to make them adhere to the proposed conventions so as to transform them into stakeholders.

The problem can be raised to a theoretical problem using almost two corpuses: the conventional theory and the stakeholders' theory. The aim of this contribution is to show how to serve the identified issue with the articulation of both corpuses. Outwardly obvious, no formal demonstration has been done yet. The contribution also aims at underlying the usefulness both theoretical (for further research) and practical (pedagogical case) of transforming into a theoretical matter the exercise permanently deployed during the entrepreneurial process: the intent to make resource holders adhere to the proposed business model (or BM), model to which they participate through the expression of their expectations. The articulation of both theories seems particularly useful to understand the BM concept and consequently to clarify the presentation of the business made by an entrepreneur facing his future partners in order to "sell" them the business.

At the core of this construction, one might find the concept of value that is, in a certain way, the exchanged money<sup>3</sup>. To convince, the entrepreneur has to show his project's value and the division he intends to make of the created value. It is necessary to consider how the value that will be created will be paid for, but also how the entrepreneur will distribute this remuneration. The created value and its related remuneration are considered, in this contribution, in the context of the creation of a firm. This could be used in other contexts and that will be discussed.

The text is made of two parts. First, we will remind our readers of both theories. Then, we will combine them through the concept of Business Model and present the first steps of a participatory action research on a pedagogical experience. This experience involves students of a master's degree specialized in entrepreneurship and whose professional project is to create their own firm, students beginning their studies in Business School, and students in their second level pursuing a generalist Management degree with an entrepreneurship option.

### ***1. Stakeholders Theory, Conventional Theory: a Review***

The reader can be reminded of two corpuses. The goal is to show their usefulness in the theoretical circumscription of entrepreneurship. The BM is a step in the entrepreneurial process that seems to be highlighted by those corpuses. According to the stakeholder's theory, the BM is the first element where the relationships with stakeholders are crystallized (section 1.1). Through the conventionalist perspective, the exercise of persuasion that the entrepreneur deploys aims at obtaining the adhesion of resource holders into their becoming stakeholders (section 1.2). It is reasonable to consider that the entrepreneur or the entrepreneurial team impulses the organisation through this successful exercise.

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<sup>3</sup> In the depth of the exchanges between an entrepreneur and resources holders (potential stakeholders), the value creation constitutes an intermediary; that's why value is the "exchanged money" of the relation (in reference to the conception of money in economic literacy).

## **1.1. Entrepreneurship Crystallizes Relationships Between Stakeholders Interested in the Proposed Business**

In Stakeholders Theory (or ST), the firm is described through various relationships linking stakeholders whose singular interests partly converge toward the business project (1.1.1.). As part of the creation of a firm, the BM seems to be the first element crystallizing the relationships between future stakeholders (1.1.2).

### *1.1.1. A Review on Stakeholders Theory*

The ST participates in a theoretical construction of the firm. According to Donaldson and Preston (1995), the singularity of the ST lies in the explanation it provides of the structuring and the establishment of a "*corporation*". It takes the form of an organisational entity through which various stakeholders reach their own pursued goal, notably thanks to their relationships with the entity. The latter is described as a constellation of cooperation and diverging interests generating problems of governance. The ST helps "reading" the management of the relationships with the stakeholders<sup>4</sup>. It is also a moral and philosophical guide for the organization, in particular on the way of behaving in the multiple relationships with the stakeholders involved in the business.

The company evolves within an environment composed of individuals or individual groups with whom it maintains relations aiming at making them true partners, that is who participate in its evolution. These stakeholders are not only shareholders and include the customers, the employees, the suppliers, etc.<sup>5</sup> The firm is responsible regarding those various categories of actors. The terminology "*Stakeholder*" is dedicated to the whole of these partners (including "*Shareholders*"). According to Preston and Sapienza (1990), this terminology appeared in the thirties, when *General Electric* identified four major *stakeholders*: shareholders, employees, customers and community. Today, this conception expands and all the parts/groups contributing to the company's development are taken into account. The firm democratizes itself<sup>6</sup> and justifies the need for passing from a "shareholder view" to a "partnership view" of the firm, which is established within the "Principles of Corporate Governance" of the American Law Institute (see Charreaux, 1998; Caby and Hirigoyen, 2001). This evolution has consequences over the relational policy of the company. Negotiation skills become essential and the executives of big companies must be able to interact with an increasing number of parts (Charan, Freeman, 1979).

Freeman and Reed (1983) find the modern meaning of the terminology in an internal memorandum of the Stanford Research Institute: *the stakeholders* are the groups whose support is necessary unless the company would cease existing. They propose two definitions of the stakeholders. The first refers to the close relations: "*Any identifiable group or individual on which the organization is dependent for its continued survival.*" (p.91). The second is broader: "*Any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives.*" (ibid). To "classify" the company's stakeholders, the authors propose a grid with two dimensions: the participation or interest of the partner and his power. Other typologies were proposed. On the basis of previous definitions, Clarkson (1995) distinguishes two categories: primary stakeholders and secondary stakeholders. The first includes the groups

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<sup>4</sup> The social responsibility of the firm is a topic that can be questioned; for example: are the firms considering this problematic more profitable than their competitors not considering it?

<sup>5</sup> The ethical funds note the firms in which they invest on ethical criteria (ex: child work). The banks create commissions of deontology. See Caby and Hirigoyen (2005).

<sup>6</sup> The reader will consult with profit the article of Clarkson (1995) recalling the research program on the CSP (*corporate social performance*).

that are essential to the survival of the company: shareholders, investors, employees, customers and suppliers. A firm is then seen like a whole of primary stakeholders, having singular interests (in terms of rules, objectives, responsibilities), reached through the complex, direct or indirect relationships, established between them by the firm. The unity holds thanks to the value the firm generates durably for each group. If any of these groups is dissatisfied, the system does not hold anymore. The second category defines the groups influencing or influenced by the decisions of the firm, but not involved in a transaction essential with the company's survival (influence group, media, insurance...). For example, a secondary stakeholder can mobilize the public opinion with regard to the company: if its survival is not ineluctably committed, it can nevertheless be seriously questioned.

Caby and Hirigoyen (2001) quote Tiras, Ruf and Brown (1997): they classify the stakeholders as "voluntary" (customers, suppliers, employees, investors...) or "involuntary" (the society, the community...).

Hitt, Ireland and Hoskisson (2003) distinguish the Capital Market Stakeholders (shareholders and principal suppliers of capital, that is banks and companies of venture capital...), Product Market Stakeholders (customers, suppliers, influence groups, trade unions) and Organizational Stakeholders (employees, managers).

### 1.1.2. Stakeholders Theory and Firm Creation

There is no option but to note that the literature mobilizing ST is devoted to the established firm. Entrepreneurship does not reject ST of its field of study, but remains primarily interested in the "emergence" (Gartner, 1995) or in the "impulse" (Verstraete, 1997, 2003) of the organization. We follow Verstraete's (2003) "design" of Entrepreneurship, represented by the following equation:

$$\text{PhE} = \text{F} [ (\text{C} \times \text{S} \times \text{P}) \subset (\text{E} \times \text{O}) ]$$

To tackle the entrepreneurial phenomenon (pH E) as a whole, one is invited to conceive it as the sum, but also as the reciprocal interactions, of three dimensions or levels (C, S, P): Cognitive (which depicts the mental processes of the entrepreneur or the entrepreneurial team: vision, reflexivity, learning); Structural (which evokes the various mediums and the contexts where the contractor and the organization that it pulse will take seat); Praxis, which links the previous levels (C & S) because it describes the entrepreneur's actions to place himself in front of the stakeholders and to configure its organization so as it fits with the previous choices. But these dimensions constitute the phenomenon only if they are related to the "symbiotic couple" formed by the entrepreneur (E) and the impelled organisation (O). Within this couple, the idea of movement, more precisely of "impulse", associated to a person or to a team (in the case of the creation is lead by several persons), provides the key allowing the delimitation of close but different situations at a conceptual level. For instance, if the movement or impulse stops (in the case of a company recently created having acquired its cruising speed), and the entrepreneur is still on the front of the scene but does not impel any more, he would not be any more an entrepreneur but a manager. In the case of the acquisition of a company by an individual, if, on the basis of the repurchased entity, he impels a new organization, the phenomenon is entrepreneurial. A large company should want to renew their potential, which is desirable, and for this reason conceive "entrepreneurial strategies", where one finds some traditional concepts such as discovery of opportunities, innovation, creativity: but the figure of the entrepreneur is not in the foreground anymore, because it is the organization and its strategists that took over to make, within an existing organization, nearly the same as in an impelled organization. In his theoretical reflection, the author uses the ST to show that the phenomenon can appear only when resource holders give their support for the entrepreneurial project. Inherent dynamics to the impulse supposes an energy sustained by resource holders (with, at the first rank, the entrepreneur himself) that must be satisfied

durably to maintain the relations build around the proposed business convention (cf.section1.2.2). Our matter deals with the precise case of firm creation, the most spectacular demonstration of entrepreneurship. Its extension will be discussed.

It seems that the BM, which constitutes the base of the strategic vision of the entrepreneur, is a crystallization of the relationships between stakeholders. It states the question of the governance of the nascent organization since the exchange of value establishes durably the relation of the organization to its stakeholders. To do so, the entrepreneur has to show to the resource holders he wishes to involve what is the heart of its business, that is the model that will create and bring the value he will be able to be remunerated for thanks to the market (the turnover). This model must be sufficiently understandable so that both parties recognize that, indeed, it is a good way of generating value, which a turnover will reward. At the end of this demonstration, it will be easier for those stakeholders to explain what the real business of the company is. In exchange of the resources they provide to the entrepreneur, the holders, then "transformed" in stakeholders, await remuneration. The BM is seen as a conceptualization of the business that show, both in a concrete way and in a more abstract one, how the money will come in and, how the relationships of exchange to the stakeholders will take place. There is no option but to know that this additional task expected from the entrepreneur (for example by a venture capital society) is closely related to the "blossoming" of the start-ups coming from the New Economy (Jouison, 2005). If its use spread and is not reduced any more to the only qualification of companies based on Internet, that is because it exceeds a simple fashion and brings a considerable supplement of information on a great number of projects of firms creations.

## **1.2. Stakeholders as Resource Holders Adhering to Business Conventions**

Conventions Theory (or CT) links the individual and the collective of actors (1.2.1.). The various stakeholders of the project must agree on something. When this agreement takes form, one can consider that a convention was born between the entrepreneur and the resource holders whom he appeals to. The BM is this first convention (1.2.2.).

### *1.2.1. A Review on Conventions Theory*

At the beginning of the entrepreneurial process or at a latter stage, a resources holder must adhere to the entrepreneur's proposition so that he becomes a stakeholder. Through CT, this proposition might be seen as business conventions submitted to the environment. However, those conventions inevitably face other conventions that already exist in this environment, whether the creator respects it or proposes a new vision of the businesses that will have to become convention (the case of an innovation).

Like institutionalism, CT, which was born in the Eighties, combines a macro-economic approach with a voluntarily approach of individuals acting. Without rejecting the neo-classic theory completely, CT indeed adopts a certain individualism, but one that remains distant from the traditional "homo economicus". It is a "contextualist" stream. Sometimes seen as the sociological mirror of the transaction costs theory, CT considers that the economic relation, which is submitted to uncertainty and permanent negotiation, can appear through mechanisms, explicit or not, between individuals (codes, rules, conventions, contracts). Those mechanisms guide the actors' behaviour and are essential to coordinate and maintain a social bond. This theory grants a significant place to beliefs and representations. It also studies adjustment or "non commercial coordination". It allots to conventions a similar statute as contracts in the orthodox theory. Adhesion to these conventions is necessary so that the

organization functions. CT changes points of view, as shown in the following table established from Gomez and Marion (1997).

<b>Contractualist Model</b>	<b>Conventionalist Model</b>
Unit = the contract	Unit = the convention
Firm = node of contracts	Firm = convention of effort
Individuals' rationality	Rationalization
Autonomy of the individuals	Relational mimesis
Information = flow between individuals	Information = "screen"

**Table 1: Models contractualist and conventionnalist, correspondences (According to Gomez and Marion, 1997)**

Convention is the fundamental unit of the reflection in CT. According to Gomez (1996): "*convention is a social construct, because it exists concretely only by the accumulation of mimetic behaviours, to which it gives, like a social mirror, their meaning.*"(p.145). The author explains that a convention: "*is a whole of criteria, implicit or explicit to which the individual refers when it is time to make the decision.*"(p.173). One of the main principles of the convention is the concept of imitation (mimesis). "*Uncertainty describes the cognitive situation in which the agent faces the non-decidability of the isolated choice and lacking references. Imitation qualifies this agent's rational behaviour if he is supposed to maximize his utility in a situation of uncertainty.*"(Gomez, 1995, p.143)

With rules and in parallel to the contracts, convention is a way to adjust inter-subjective behaviours (Gomez, 1994), a means to coordinate agents based on collective cognitive systems (Munier, Orléan, 1993). It is a regular procedure of solving problems collectively established through a procedural rationality; nevertheless it is presented to the actors in an objective form (Dupuy et al.1989). It must "*be apprehended both as the result of individual actions and as a framework restricting the subjects*" (ibid p.143). It allows understanding how a collective logic is constituted and how the behaviours of the members of a population can reveal certain regularity in a recurring situation (Orléan, 1994). It supposes fixed conditions of conformity and beliefs controlled by a base of common knowledge about people's behaviour.

With Gomez (1997), let us recall the cohabitation of two levels in CT, "conventions of qualification" (this level defines the exchanges and corresponds to the market) and "conventions of effort" (this level defining joint work can correspond to the company). The economic area is full of conventions related to the quality of the actors engaged in the exchange. "Normal" behaviours are supposed to be known and shared and constitute the reference mark from which one acts "*Each space of exchange is locatable as a governmental system associating individuals and conventions of qualification.*"(p.71-72). The "standard" market is a particular convention that is characterized by its low complexity and exchanges based on competition. The stakeholders of the company are interested by its survival, but they are facing an uncertainty about the pursuit of its activity. CT attempts to describe the references shared by the stakeholders and to model the information system which stands like a "screen" between them and it allows them to be convinced that the rules of the game are (or will be) complied. The company is an organization that "*standardizes the relations between individuals in the logic of the contribution to a common objective*"(p.74).

In this view, each company is a particular convention of effort that is expected to evolve, the firm being a dynamic system able to modify its rules, to strengthen but also to disappear. In

addition, research converges towards a coherent vision of the firm as a place of collective confrontation to uncertainty in a perspective of profitability (Ughetto, 2000). The firm cannot be reduced to the only contractual meeting of individuals motivated by their interests. Collective learning, as well as conventions of quality and work, helps defining the company (Orléan, 1989). This collective dimension, resulting from coordination by rules and conventions, makes it possible to face the uncertainty of the market.

### 1.2.2. *Conventions and Firm Creation*

In the field of the entrepreneurship, Verstraete (1997, 1999) mobilizes the conventionalist approach to link the structural level to the cognitive level of the model previously presented (section 1.1.2). "*The CT articulates the individual and the collective through the recognition of a symbolic universe establishing the rules of the economic game and constituting a place of shared representations making it possible to set up standards of economic and social conduits. First of all, a convention returns to the behaviour adopted by an individual expecting other individuals to behave similarly; at least, at a given moment because convention is an evolutionary mode of regulation.*"(2003, p.48). The entrepreneur is the one who convinces resource holders to adhere to the business conventions proposed relatively to his project. The stakeholders gathered have a common point: the survival of the organization. The author agrees with Gomez considering that the entrepreneur of a conventionalist model builds successfully a common objective of efficiency. With CT, the entrepreneur's project is articulated with the collective resulting from non-immutable but dynamic conventions. The entrepreneur is, in business, a significant actor of these dynamics.

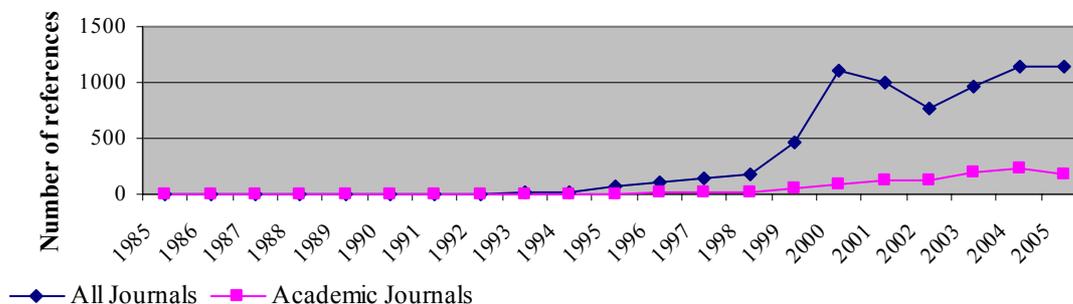
One of the principal missions of the entrepreneur is to convince of the resource holders to adhere to his project. This idea of persuasion is to be compared with the use made of the "rationalization of actors and decisions", a key-concept particularly used in strategic management. To convince his potential stakeholders, the entrepreneur is not able to propose them an optimal (un-risked) project, but he can submit a reasonable project he will be able to justify. Beyond the "idea" of the business, and more than the demonstration of a business "opportunity", the BM constitutes the first communicable convention articulating the singularity of the project and collective expectations. Yet, in order to convince, the entrepreneur is theoretically confronted with conventions on three distinct levels:

- The solicited resource holders share their own conventions, which the entrepreneur deserves to know of, so that he can make himself heard by them (banks, capital-risk, consultants, family...).
- Depending on the sector, a dominant convention of qualification might exist, and the entrepreneur will have to conform to be recognized as belonging to this sector (or being able to belong to it). Indeed, he can try to propose a new convention, for example in the case of a radical innovation, but he will have to be patient (sociology of the innovation); the role of the innovating entrepreneur is to transform the market to help the process of innovation and then, when the conditions of economic viability are gathered, to adjust the innovation to the market (Benavent, Verstraete, 2000);
- Finally, together with his stakeholders, by creating a new company, the entrepreneur gives birth to a new convention of effort.

Depending on the project carried out, these three levels are more or less important but the success of the exercise of persuasion partly concerns each of them.

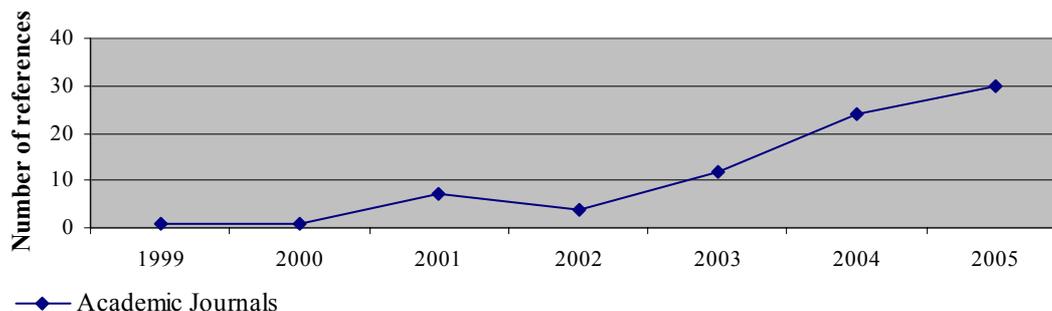
## **2. *Combination of The Theoretical Approaches to Conceptualize the First Convention Obtaining the Adhesion of Stakeholders: the Business Model***

A research undertaken on the EBSCO-BSP database reveals that the expression BM first appeared as such in a reference published in 1960. Since the Eighties, it has been employed regularly, with a significant increase in the middle of the Nineties (New Economy). In the academic journals, the "takeoff" was observed later (2000).



**Graph 1 : Search for "Business Model" in "default fields" in the database EBSCO-BSP**

In academic journals, BM has only been a keyword since 1999. Its growing use as a keyword underlines the interest of the scientific community for the concept.



**Graph 2: Search for "Business Model" as "author supplied key words" in the database EBSCO-BSP**

The use remains mainly related to new technologies (Open Source, Peer-to-peer...). The BM expands over its original field (Warnier, Demil, Lecoq, 2004, in strategy / Bely, 2005, in marketing; etc.).

In this communication, we employ it within an entrepreneurship perspective similar to its original use but we try to theorize it (section 2.1) by articulating the theories presented in section 1. Then (section 2.2.), we present an empirical study used to explore the practical usefulness of the conceptualization.

## 2.1. The Development of a First Version of the BM: a Convention to Obtain the Adhesion of Resource Holders

The entrepreneur must transform resource holders into stakeholders. The first version of the BM lies in the heart of the exercise of persuasion deployed for this purpose and it is prejudicial if it is not understandable (2.1.1.). This BM is partly built in an endogenous way, on the basis of an idea, checking (or betting...) that it is a business opportunity and inevitably mobilizing resources to model the first version of the offer. The latter cannot be made without considering the resource holders' expectations that influence the modelling of the offer (2.1.2.).

### 2.1.1. A BM to Transform Resource Holders into Stakeholders

Within the entrepreneurship perspective we adopt, the conceptualisation of the BM can be a theoretical grid applied to a practical question more or less explicitly asked to the entrepreneur: "How, according to your product or service offer does your business generate value for itself and for its stakeholders?"<sup>7</sup> The entrepreneur is thus repositioned in his "web" of stakeholders. The exercise of persuasion aiming at transforming the resource holders into stakeholders is much more easier as the entrepreneur gives a clear answer to this question, in other words how he communicates the way in which he plans to create shareable value (implying the remuneration of this value). He sets up a new convention on his core business (the offer) and on the generated and shared value. As the firm evolves, the BM will not be static. The entrepreneur will have a first idea of both his offer and the value he intends to create for the company and the future stakeholders. This first version of the BM will change:

- During the creation process: the confrontation with various resource holders (investors, prospective customers...) which, by their returns (value perceived or not; agreement or not on remuneration, that is on what they receive in exchange of what they give) will lead the entrepreneur "to mature" his project; the refusal or the consents of these individuals or groups are sources of learning and evolution of the first conception of the BM;
- Throughout the life of company (the offer and stakeholders might evolve).

This communication and in particular the present section deals with the first point.

The existence, therefore the creation, of a company depends on the adhesion of a certain number of stakeholders to the project that is subjected to them. It is easy to understand the entrepreneur's interest at obtaining the adhesion of the prospects or of the potential investors solicited: he hopes they will grant him the resources he needs to carry out his company. In these examples, these resources are financial: customers by the price they pay for the proposed products or services and investors by the funds they lend to the company so that it can carry out the necessary investments and finance its activity. It can be resources of different nature: products, commodities and services, commercial advantages granted by the suppliers, the entrepreneur's close relations' support, the working schedule and skills of the employees, the collaboration of partners...

Initially "resource holders", these various categories of people become stakeholders of the company when the entrepreneur convinces them and obtains from them the expected resources. The related exercise of persuasion is certainly more or less difficult depending on the resource holders "enrolled". But for each one of them, there is an interest, an exchange value.

The issue of a firm creation project is partly explained because a resource holder bets on what he will receive later (rarely immediate gain). If the same problem sometimes exists in an established firm, a future company can't rely on past success of similar bets. To some entrepreneurs of the New Economy the exercise of persuasion was complex (partly because of their innovative products or services offer) and particularly difficult because of the lack (or absence) of a clearly identified market. They need to have a very clear idea of their future business that is of their BM. In the field of the NICTs, the difficulty was even caused by the dissociation of the product of the activity and the resources constituting the corresponding income (Benavent, Verstraete, 2000) that is practically, "who pays the contribution of value?"

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<sup>7</sup> The conception of the BM underlying this question meets those used by other authors (see in particular Shafer et al., 2005 and the list of definitions present in Jouison, 2005) and was reinforced thanks to preliminary interviews with experts (INPI, ANVAR, a consulting society and an incubator).

On the other hand, stakeholders have a common perception of the interest they have to adhere to the project, that is they perceived the "value" this company will be able to release for them. But through their requirements, these stakeholders participated in the development of the BM. Practically, the entrepreneur can choose between two options: either he convinces that his BM can become a new convention, or he justifies that his model respects the conventions in force and that a market share can be obtained. Modifying the rules (in the case of an innovation) or respecting them, the model must show to the stakeholders the value they will be able to extract from it. Two major stakeholders are in the front line to carry their persuasion:

- The entrepreneur himself (or the entrepreneurial team), because this stakeholder must inspire confidence and because he is the main founder of the business model;<sup>8</sup>

The customers whose presence ensures the recognition of the estimated value of the project, either the value consumed by them is also paid by them or is compensated by other channels (as in the example of web gates, or publicity on television).

In other words, the BM must prove there is a potential turnover and specify the channels by which the remuneration of the value created will reach certain categories of stakeholders

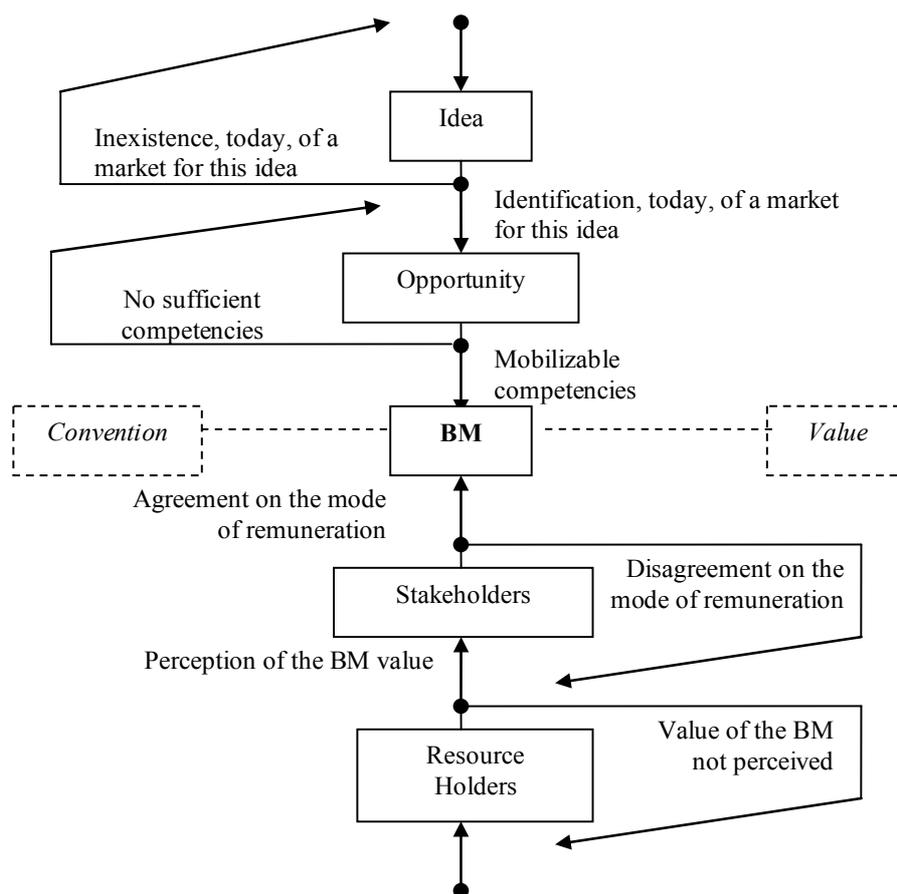
### 2.1.2. *Modeling the BM*

Figure 1 can be read from top to bottom or conversely, the BM constituting the linking point between its high part and its low part. These readings can follow one another or be concomitant.

Starting from the top, the idea must meet a socio-economic reality so that the creation can be carried out or a market exploited, without which, in the absence of a business opportunity, the process goes back to square one. In fact, it is not always a question of a step backwards because confrontation with reality very often provides interesting training. However, to conceive the BM, that is also to model the offer, it is still necessary to reunite and exploit the required resources, and even more so, the competencies. These are utilized, when they are possessed by the organization or by partners that compose of the offer system. Without these competencies, the system cannot then offer what is perceived as the expectation and two possibilities then emerge. The first is to go back to the opportunity to redefine its confines, even if that must sometimes impose new work on the idea. The second one requires patience while hoping to be able to develop or reunite the needed competencies (for example those necessary for the development of a prototype), without forgetting that an opportunity can be expressed through temporal window and thus is not eternal.

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<sup>8</sup> Sometimes, the BM results from the idea of someone else, but the entrepreneur will have to model it.



**Figure 1: The Business Model**

Nevertheless, the comprehension of a BM will not do without an ascending reading of the figure. Resource holders must perceive the value of the BM. Meaning; believe in its potential to garner a sufficient sales turnover. A resource holder cannot change into a stakeholder if he does not think that the meeting with the customers is possible. However, it is not sufficient, because it is still necessary to agree on the remuneration mode of the value exchanged on the market. A required first measure consists in convincing that the financial resources indeed will transit through the channel planned in the model. The second corresponds to the sharing of this remuneration, since what interests the resource holders open to becoming stakeholders, is what they will profit in supporting the project. In short, resource holders not perceiving the value of the BM stagnate with this statute, and the stakeholders that are not in agreement with the remuneration of the value (of the BM but also of the value that they bring) do not take part in the designing of the BM, which then loses its stakeholders. In this way, the resource holders met, even more those who became stakeholders, influence the offer, therefore the BM. To use a metaphor, they take part in the receipt of the cake that they perceive as appetizing and copious, while wishing to see it grow larger, and in return for what they bring, they negotiate a share (of the cake...).

Respectively on the right and on the left of the BM (dotted lines) are two already evoked concepts, the value and the convention, which intervene with each stage of this modeling process. Retaking the descending reading, the move from the idea to the opportunity can be conceptualized as recognition, at the same time, of the value of this idea and the convention on what the market is. The move from the opportunity to the BM, for this part of the figure,

supposes having the resources that can be proliferated<sup>9</sup>, the conventions expressing itself by their coordination. In an ascending reading, any resource holder can become stakeholder only after being convinced thanks to the entrepreneur's exercise of persuasion, that is the clarification of the business convention that he proposes. This exercise of persuasion will relate, on the one hand, to the value of the BM and, on the other hand, to the sharing of this value (the agreement on the mode of remuneration, as much as to the channel and the sharing). These efforts on behalf of the entrepreneur calls for an oral performance, that is a meeting with the resource holders, accompanied by a written document, since a convention works out in the business world by the attainment of a Business Plan<sup>10</sup>.

## **2.2. A participatory action research in a pedagogical context to question the utility of the BM**

At the methodological level, our approach concerns Participatory Action Research (or PAR) (2.2.1). The related operational framework includes four stages (2.2.2).

### *2.2.1. Our Conception of Participatory Action Research*

The previous design was deployed in a pedagogical context. According to an instrumental aiming, it is the utility of the BM which conducted to a research action<sup>11</sup> and more precisely to a Participatory Action Research (PAR) in the sense of Kemmis and Mc Taggart (2000): "*Participatory Action Research [...] is generally thought to involve a spiral of self-reflecting cycle of: planning a change, acting and observing the process and consequences of the changes, reflecting on these processes and consequences and then re-planning, acting and observing, reflecting and so one...*" (p.595). The authors specify that the process is not so simple, each step being the result of co-partners' collaboration to the process of PAR. To explain what is a PAR, they add seven key-characteristics to the cycle previously evoked: "*PAR is a social process has; PAR is participatory; PAR is practical and collaborative; PAR is emancipatory; PAR is critical; PAR is recursive (reflective, dialectical); PAR aims to transform both theory and practice*".

Assimilating the process of action research to a spiral is recurring in literacy. Thus, for Stringer (1996), it is the spiral "*Look, Think, Act*", while Susman and Evered (1978) identify five stages within this cycle: diagnosis, planning of the action or the intervention, realization of the intervention, evaluation and learning. Kaplan (1998) evokes a cycle in four steps for a type of action research he calls Innovation Research Action:

1. "*Observe and document innovative practice*": it is about identifying plausible solutions to flaws found in the existing practice;
2. "*Teach and speak about the innovation*": the preparation and the teaching processes make it possible to understand the underlying phenomenon in a more thorough, systematic and conceptual way;
3. "*Write journal articles and book*": it concerns the presentation of the ideas to a larger public aiming at generating enthusiasm and a debate around them;
4. "*Implement the conception in new organizations*": three results are expected from this last stage: to see whether the new concept can be put into practice in other

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<sup>9</sup> It is one of the criteria of the strategic management of resources approach. The Resource Based View can help to understand the BM but it will not be discussed here.

<sup>10</sup> The Business Plan will not be studied here because this paper focused on the Business model.

<sup>11</sup> The questions raised by this type of methodology will not be addressed here but relate to their scientific validity, the need for the participation of the researcher, his role, the impact of his approach.

organizations (and thus "to validate it"); to provide learning opportunities on the concept; and to produce knowledge on the practice itself.

The approach we adopted corresponds with cycle. During the first step, we met the field, through discussions with entrepreneurs and consultants-advisers in firm creation, without forgetting the professional experiences of the implied researchers who cannot be regarded as neutral. On this basis, a teaching program was conceived, articulating the problems of the field and the literature (both practical and theoretical). The present communication concerns stage 3. Nevertheless, we amended the step suggested by Kaplan, as the reader will note in the following section.

Kemmis and Mc Taggart (2000) consider *Classroom Action Research* (CAR) as belonging to the PAR. "*CAR typically involves the uses of qualitative, interpretive modes of inquiry and data collection by teachers (often with help from academics) with a view to teachers' making judgements about how to improve their practice.*"(p.569). This type of work primarily concerns the educational establishments but action research appears in University courses. Following this direction, Carson (1990) explains that action research was regarded as "*a way of giving teaching back to the teachers*"(p.167). He delivers the experiment undertaken within the group CARPE (*Collaborative Action Research in Peace Education*) he evokes under the term of "*Critically Reflective Action Research*". Each teacher expressed himself on his own pedagogical experiments (and difficulties), this pool of experiments and the debates of the group helping each one to reflect on his own practice. The main interest of this work was, according to him, the production of knowledge thanks to the practice and the share of the experiments. He poses action research as a hermeneutic (as an art and a science of interpretation) of the action.

According to Levin and Greenwood (2001): "*Pragmatic philosophy provides a superb grounding for a different kind of scientific and pedagogical practice [...] We argue that making pragmatic action research the central research approach in Universities would move institutions of higher education towards becoming collective 'learning organizations'*."(p.103). Levin is at the origin of teaching programmes at the Norwegian University of Science and Technology (DEMON Programme and PhD Programme) where the students learn by action research to produce knowledge through experiments, practices carried out in the companies where they are led to work. According to him, this way of teaching is particularly motivating and gratifying for the teachers themselves. Other experiments are presented, in particular in Scandinavia (Program CAU and ACRES) and in the United States.

We can, in France, announce the experiment led at the University of Nantes (Mévellec, 2000) within the framework of a Master degree. Like the previous ones, this action research implied the students. A problem in management audit (rebuilding of a costs system) was identified and proposals were formulated. Students, under the responsibility of a teacher-researcher, test these proposals in companies facing the problem and use the concept and the intervention methodology (resulting of previous research and subject of the teaching they received) in order to establish a solution for the specific problem faced by the company they work in.

### 2.2.2. *The Four Stages of the Operational Framework*

The experiment that we carried out relates to three programs: one third university cycle (approximately 20 students per annum), another second university cycle (40 students) – both are in University Bordeaux Montesquieu. The last experiment is carried in first year of business school. (Approximately 400 students per annum – Bordeaux Business School) Before the formal step restored here, other programs were used to set the protocol (an engineer school during several years and other business schools, various Master degrees in Management).

### ***First stage of the teaching approach: discussions with entrepreneurs and advisers in firm creation***

It is necessary to remind that, until now, a majority of the entrepreneurs don't know the concept of BM, nor a conceptualization of this one. But, many entrepreneurs create their company without being accompanied, whereas it is shown that the chances to succeed increase when they are advised (Birley, Westhead, 1992).

In addition to a long experiment of assistance to the firm creation of one of the authors, more formally, we proceeded to some interviews with two experienced advisers in firm creation in order to know if they explicitly used the concept of BM. In this phase of exploration the interviews were more connected with discussions than rigorously carried out within the framework of a research. Nevertheless, they contributed to the reflection and there is no option but to note that the BM is not explicitly mobilized, nor even concretely understood. One remark led to the construction of pedagogy able to answer the following expressed waiting: "*what is obvious in my activity of consultant/adviser in firm creation is the entrepreneurs' lack of method. But I notice that sometimes some of my collaborators also lack some and if their advices punctually remain very relevant, a guide thread would be welcome. We would need a method where the entrepreneurs and their advisers recognize themselves, on the basis of which they could exchange.*"

### ***Second stage: the development of a method based on a generic formalization of a creation process***

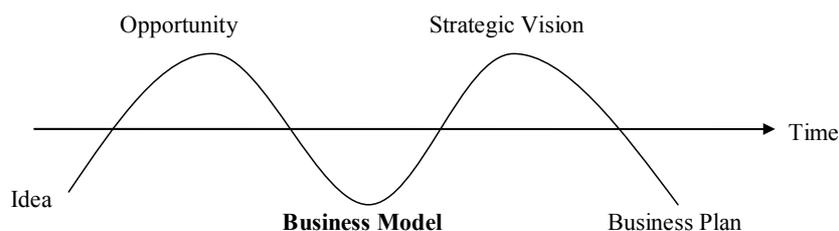
The firm creation can be treated in various ways. The generic process created was based on the study of handbooks for firm creation (or more largely for entrepreneurship) and on the examination of theories able to help clarifying the identified problem.<sup>12</sup>

The set up process starts from the idea and ends at the business plan (figure 2). As the diagram suggests it, the process is not linear and the activities constitutive of each stage serve in fact several stages. The developments, just like the movements (go and back) between the elements of this diagram are frequent. The pedagogical relevance of the process asserted progressively, within more or less long modules (it was also tested on short seminars of about fifteen hours). Within the framework of a short module, if the process is entirely presented, in the practical works, it seems reasonable to stop to the BM, because the redaction of a business plan provides generally only naive documents.

Within the framework of a long module or a qualifying formation dedicated to entrepreneurship, the business plan constitutes the result of a *savoir-faire* appreciated by professionals. Depending on the type and level of the students on the one hand, and, on the formation amplitude on the other hand, teaching programs were elaborated, all implemented, during which colleagues of various disciplines intervened. Their interventions are placed in a judicious way along the process: for example, we preferably mobilize the specialists in marketing between the idea and opportunity, asking them to deploy the tools allowing the testing of the idea. The teachers receive students who wish to receive personalized advices.

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<sup>12</sup> In fact, there are two problems. The first concerns the formatives: the lack of method evoked by the adviser in firm creation. The second concerns the entrepreneurs: to convince of the resources holders to adhere to the proposed business. This last, theorized and thus raised in theoretical matter, resulted in answering the problem of the lack of method by a conceptualization (that of the BM) forming part of a process serving the teaching practice (cf figure 1).



**Figure 2: The entrepreneurial process**

### ***Third stage: the development and the presentation of a BM***

In program of third cycle, beside practical courses allowing students to apprehend the process (several courses are thus related to the BM, with real examples and cases to treat) and theoretical courses making of them specialists in the field of firm creation and acquisition (object of the end of the year report), these students must elaborate, individually, a business sometimes the one already considered (approximately one third of the promotion really projects to create a company).

For the short modules followed by students beginning their studies in Business School (three half-days seminars), the students must work out, in team, a BM and present it, two months after the seminar, to a jury composed of an expert and the teacher responsible for the module. For the students of the 3<sup>rd</sup> cycle, this work is also required at the end of the first semester, but constitutes only one stage of their work: at the end of the year, it is a business plan which is presented to a jury made up of banking professionals, venture capitalist, advisers, and other lenders, person in charge for research valorisation, entrepreneurs... no teacher takes part in this jury. For the development of their BM, they have, according to the process, to get an idea and to appreciate its potential. About the idea, it is necessary to find it, develop it and if possible to protect it. Then, the tools and marketing approaches, adapted, are used to confront the idea with the field and thus to possibly raise a true business opportunity. The developments that led to the construction of diagram 1 show that the resources holders influence the modelling of the offer. In other words, the development of the BM requires to have met potential stakeholders. The student is invited to use the exercise as his first experience of selling a business and, in case he fails, he must use the remarks he received to do the exercise again.

In the second university cycle, the students receive a course in entrepreneurship during the first semester, and during the second, they have to build and present the BM, having practical work in this part of the program.

### ***Fourth stage: the reaction of the teaching staff and of the students***

The reaction of the teaching staff of the program of 3<sup>rd</sup> cycle manifested through various ways. The first is the direct return to the person in charge for program. The whole of the speakers participating in modules related to the development of the students' business appreciated to have the process modelled of figure 2 as discussion thread and, early, felt the impact of the sensitization and then of the formation to BM. A second manifestation is the possibility offered to the students of getting appointments to help them develop their project; in other words, the teachers feel more involved, in particular because more directly facing the impact of their performance. It seems not unreasonable to consider that the BM plays already its role of crystallization between stakeholders, here: the students and their teachers.

Members of the jury of the business plan sustained at the end of the university year, not informed of the change of pedagogy and of the new importance attached to the development

of a BM, evaluated very positively and spontaneously the clearness with which the students presented their project<sup>13</sup>. This feeling was confirmed the following year.

Students in master degree concretely measure the assistance with the development and the expression of the BM. The first version (since it will evolve) being validated, the student being reassured and becoming confident in his business' heart (one is never as convincing as when one is convinced oneself), the learning can move towards the other elements of setting the business, in particular the strategic vision (with poles concerning the organization to be set up, the assemblies juridical-financial, the relational and competing policy, etc.) and the writing of this one in a business plan.

The students of first cycle, working primarily on a fictive BM, based on an imposed topic, showed an increased and reasoned creativity. They benefit from a meeting with a teacher before the presentation of their BM.

The evaluations, by the first-year students of business school, of the module in Entrepreneurship are very positive. The students await the creation of a chair of Entrepreneurship to profit from complementary modules and to develop a true project of firm creation.

The impact on the students of second university cycle is more difficult to appreciate, in the long term, the number of students turning to masters specialized in entrepreneurship could be an indicator, though the goal is not there. Indeed, if one agrees to recognize that our companies must undertake (in particular SME) then it is not unreasonable to familiarize the students with the enterprising mind because they constitute the ground that our companies will need to carry their initiatives. In other words, it is not a question to attract them towards one 3<sup>rd</sup> dedicated cycle.

### **3. Discussion and conclusion**

The teaching experiments are conclusive and the development of a BM will continue. The previous section shows that the conceptualization of the BM, its theoretical and practical teaching serves to clarify the projects. For the students of business school, we also have to note that, after two years of preparatory class, the BM is for them the occasion to understand and to see closely what is the core business and why, then, it is advisable to create a company to exploit indeed what is drawn<sup>14</sup>. The principle of exchange of value is then an occasion to show the utility to deploy policies aiming at optimizing the relations with the stakeholders and at thinking the structuring of the firm according to its evolution. These policies return to the big functions of the company, since in fact, facing the growth of the company, it is a question of configuring the impelled organization so that it makes it possible to deploy the evoked policies (true wage policy to optimize the exchange of value with the employees, purchase policy to optimize the exchange of value with the suppliers, product policy, financial policy...), that is making it possible to satisfy the stakeholders and to negotiate with them the conditions of the exchange. In the case of an ex-nihillist firm creation, one could think that it is not a priority, the important thing being generating the turnover. Nevertheless, neglect the

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<sup>13</sup> The students support their business plan in front of two or three members. Over the same half-day, several juries operate in parallel. At the end of the day, the dozen members of the jury are gathered to an immediate report. From the academic year 2005-2006, they will be sensitized, for the needs for evaluation of the formation, to react also in writing.

<sup>14</sup> In a practical part, the students will be asked to « draw » a Business Model.

importance of the structure can lead to dangerous situations. If that can appear obvious in the manufacturing companies that sell their own products, service societies met the same requirements. Some start-ups suffered from it, while adopting plane structures not able to support the growth. Some authors consider that one of the answers to the fast growth is to conceive until the beginning an organization broader than requires the preliminary draft (cf. Yofie, Cusumano, 1999). The concept of organisational design or structure of company can thus be revisited, integrating from the beginning the exchanges of value with the stakeholders, whose related policies lead the entrepreneur to solicit advices or to be surrounded by specialists because he can't control all their techniques. One sees thus how the work on the BM influences the pedagogy developed and its link with the strategic vision that should be built, at least concerning the functional policies. For the other levels of the strategy, that is generally secondary or of activity, and primary or of company (very seldom, because the invested field is mainly single in the companies in creation, which does not mean that the impasse is made on this level in teaching), it is easy to show to the student that him and his project does not position only with respect to stakeholders, but also fit in general environments (technological, socio-economic, cultural... thus a macro level) and with respect to competitors also aiming the adhesion of resources holders to their project (competitive analysis). The initial choices consist in deciding if the business respects conventions in use in the invested field or if it consists in proposing a different register. The student understands the inherent difficulties and, beside construction (or socialization) of the offer, the need for receiving some techniques of negotiation, which adapt to the stakeholder met. The examples could be multiplied here to show the utility and the applicability of the proposal.

The teaching experiments, both stimulating and risky, are rarely presented as action research whereas teaching is generally also a professional practice of the researcher. As the work of Kaplan (1998), our communication can be conceived like a broader work, whose next stage, after the teaching experiment, is an access to the field of the practice of entrepreneurship. This stage is already started, with entrepreneurs and consultants.

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