

## RESEARCH ON THE EFFECT OF ENTREPRENEURIAL NARRATIVE PASSION ON RESOURCE ACQUISITION-- A MEDIATION MECHANISM BASED ON COGNITIVE LEGITIMACY

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### ABSTRACT

It has always been an important issue about overcoming the threshold of legitimacy and obtaining external resource support in the field of entrepreneurial research. Entrepreneurial narrative provides a good perspective for the research of the legitimacy construction and resource acquisition of new ventures. This paper discusses the effect of entrepreneurial narrative passion on legitimacy and resource acquisition, and the mediating mechanism of cognitive legitimacy. In this paper, the narratives of 18 entrepreneurs from 'winning in China' are selected as the research samples. The results show that entrepreneurial narrative passion has a significant positive influence on cognitive legitimacy, and cognitive legitimacy has a significant positive relation to resource acquisition; while the relationship between entrepreneurial narrative passion and resources acquisition does not pass the significance test and there is no intermediary mechanism of cognitive legitimacy between entrepreneurial narrative passion and resource acquisition.

**KEYWORDS:** entrepreneurial narrative passion, resource acquisition, cognitive legitimacy, new venture

### 1. INTRODUCTION

It is critical for startups to get resources support. However, due to the widespread "new entry defects" in new enterprises, efforts to obtain resources often fail (Aldrich & Fiol, 1994; Delmar & Shane, 2004). These defects include: lack of business history to show its reliability, hard to attract good staffs to build core competitiveness, and difficulty to establish a stable relationship with clients, investors and other stakeholders, etc. (Stinchcombe, 1965). These defects are known as the "threshold of legitimacy" (Zimmerman, 2002).

Entrepreneurial narrative is regarded as an effective way to obtain legitimacy (Suchman, 1995). More and more scholars believe that storytelling is an essential part of the entrepreneur's "toolkit" (Martens, 2007). Successful entrepreneurs are also often seen as smart storytellers (Smith & Anderson, 2004). Therefore, scholars focus on the role of entrepreneurial narrative in the process of entrepreneurship, especially the challenging task of obtaining resources from external sources (Aldrich & Fiol, 1994). Lounsbury & Glynn, 2001; O'connor, 2004).

The existing theoretical literatures discussed how to construct the organizational legitimacy through entrepreneurial narrative, including the related conceptual model, the composition and type of narrative and the internal mechanism of legalization (Lounsbury & Glynn, 2001; Martens et al., 2007; Zott & Huy, 2007; Downing, 2005; Holt and Macpherson, 2010; Wry et al., 2011). However, these literatures are mainly derived from personal observation, literature review or case study, and empirical research is rare (Martens, 2007). Adopt the way of empirical study, this paper will discuss the influence of entrepreneurial narrative passion on legitimacy construction and resource acquisition, and the mediation mechanism of cognitive legitimacy will be examined.

## **2. THEORETICAL BACKGROUND**

### **2.1 Narrative and Entrepreneurial Studies**

Narrative research has been widely applied in sociology, psychology, anthropology, education science and literary fields. And now narrative research is taking place in entrepreneurial studies. More and more scholars and periodicals began to discuss the problem of entrepreneurship in the perspective of entrepreneurial narrative. This growing interest is significantly related to the potential contribution of narrative to entrepreneurial research. Steyaert (2007) proposed that the narrative method can make a constructive contribution to entrepreneurial research by introducing the concept of reinforcement, the reflection of epistemology and methodology. They argue that narrative research can help researchers explain and predict the behavior of entrepreneurs and summarize entrepreneurial phenomena on the basis of diversified voices and situational awareness. It is worth mentioning that stories and narratives are not new phenomena in entrepreneurship research. Case studies which the relevant feature elements of stories are implied have been already widely used in entrepreneurship research.

One of the key problems of narrative in the field of entrepreneurship is to explain the identity construction of entrepreneurs. Entrepreneurs tell stories about their lives that are closely related to the way they run their businesses. Listening and explaining the entrepreneurial narrative helps to promote understanding of the identity and behavior of entrepreneurs. Narrative also plays an important role in the learning and experience expression of entrepreneurs. Clearly, storytelling is closely related to how entrepreneurs understand his behavior and how he interacts with others, identifies opportunities, and gains experiences. Therefore, the recognition of narrative characters can give us a richer and more comprehensive understanding of how entrepreneurs learn and gain experiences. Then narrative can provide a rich conceptualization of possibilities by means of metaphor. The point of using a narrative in this way is that it can identify a variety of different angles, from which entrepreneurship can be seen. On the other hand, story creation emphasizes the importance of cooperation and reflection, as well as various aspects of entrepreneurship, which is in sharp contrast to the former's metaphor. Therefore, using narrative method to conceptualize the various aspects of entrepreneurship is a new perspective and will be fruitful (Johansson 2004). As Gartner (2007) notes, narrative research is an imaginative science that will play an increasingly important role in entrepreneurship research.

### **2.2 Entrepreneurial Narrative Passion**

In the broadest sense, entrepreneurial narrative refers to the stories that entrepreneurs tell about themselves, their company or a new organization construction (Martens et al., 2007; Gartner, 2007; O'connor, 2004). In other words, a entrepreneurial narrative is a story of a particular type of

theme. The story is a series of events that unfold over the course of events, inevitably involving the time logic of events (Gabriel, 2004). Usually, the events or actions referred in the narrative are understood to occur in sequence and can be dramatically reorganized by storytellers (Pentland, 1999). So it doesn't have to be chronological, but time logic is the basis of every entrepreneurial narrative. Another basic feature of the story is that the sequence of events involves the associated participants (Bruner, 1991), which is generally referred to as a role. They are involved because they are narrative agents or victims, beneficiaries, etc. (Jahn, 2005). The protagonists of entrepreneurial stories may be individual entrepreneurs, founding teams, or their startups. The most important feature of story is that it occurs according to the needs of the plot (Gabriel, 2004; Bortolussi & Dixon, 2003). Gabriel (2004) argued that "the stories are not just the time record of events, they represent a poetic description of narrative materials, which aims to think facts as experience rather than information". So, the storyteller will not tell a series of random or irrelevant events, that is to say the meanings are allowed into a series of events and the story. The narrative structure of the story will contain "poetic rhetoric", which is a mechanism designed to connect the events in the story and give them meanings. Examples of these mechanisms are causal attribution, agency attribution, attribution of responsibility, attribution of motivation, or emotional attribution (Gabriel, 2004). An important point from this discussion is that the poetic license granted by a story allows the entrepreneurial narrative to convey a richer connotation while it is difficult to express in other forms. Finally, a story is told by a person, so there is always a recognizable voice (Pentland, 1999). The narrative voice reveals who the narrator is, which allows the audience to make attributions about the perspective or viewpoint of the narrator. This is an important feature of narrative not only because it can help the audience to understand how the narrator conveys experience, but also because a key standard of evaluation is the authenticity of their (Bruner, 1986).

In terms of the impact of entrepreneurial narrative on venture capital acquisition, it must be understood clearly about the epistemological role of the story and how it can help mankind to understand the world. In essence, the story is an effective means of sense-making, because facts rarely speak for themselves (Gabriel, 2004). It is a very useful function of the sense-making by narrative for entrepreneurs, while they communicate their ideas to potential investors, who need to understand the business opportunities. For entrepreneurs, story is a good medium which not only can express their ideas, actions and intentions, but also envision a vision for the future. Investors must therefore understand the future vision conveyed by the entrepreneurial narrative and need to assess its authenticity. The effective entrepreneurial narrative is not only credible, but also attractive.

The narrative can elicit emotional, unconscious responses in addition to the sense-making, especially in uncertain environments. From this point of view, the influence of narrative on venture investors is not limited to value assessment, but also to investor's emotional response. Eagly (1993) suggested that emotional impact not only interacts with cognition in the formation of evaluation judgment, but also can be treated as relevant information in themselves. Emotional reactions, in turn, will produce personal resonance, and ultimately inspire action (Heath, 2007). In fact, studies have shown that audiences are more likely to recall the emotional aspect of the story (Sadoski, 1990), and its evaluation is more important (Sadoski, 1988). The obvious motivation for an entrepreneurial narrative is not only the financial return on investment, but also the emotional response associated with greed or passion.

### **2.3 Cognitive Legitimacy**

Legitimacy refers to the general cognitive and assume of proper, appropriate and reasonable on a particular subject or behavior under the standard of the system of values and social construction in general (Suchman, 1995). Because of the lack of business history and the stable and reliable relationship with stakeholders, the start-up company has difficulty in obtaining relevant resource support, which often leads to the failure of entrepreneurial activities. This defect is called the "threshold of legitimacy" (Zimmerman, 2002). Legitimacy is considered to be the most scarce and critical resource element for start-ups.

The concept of legality is widely concerned with social culture. From the perspective of social culture, legitimacy is "a belief that authority, institution or social norms are appropriate, desirable and just" (Tyler, 2006). Legitimacy is a necessary resource for obtaining other resources. The higher the legitimacy of new enterprises, the more resources they can obtain.

## **3. RESEARCH HYPOTHESIS**

### **3.1 Entrepreneurial Narrative Passion and Resource Acquisition.**

One of the important things in the venture capital process is that entrepreneurs show their business plans to venture capitalists. The business plan includes the operating conditions of the new venture, the industry and market trends, the composition of the team and other essential elements, either in writing or in formal speech. When investors evaluate business opportunities, they not only consider the contents about the past business history and market data which are objective and measurable, but also including honesty, passion and other entrepreneurial quality which are subjective perception and difficult to measure. Mason (1996) points out that the most attractive for investors is entrepreneur's qualities such as professional knowledge, honest, reliable, and passionate. Similarly, Haines (2003) believes that venture capitalists mainly seek entrepreneurs with honesty and strong professional ethics.

Vallerand (2003) defined passion as "a strong tendency to invest time and energy in activities". Perttula (2003) argued that passion is a state of mind, that is, intense emotional arousal, internal drive and full participation in meaningful activities. Both definitions suggest that passion can influence people's attention and action. In the process of entrepreneurship, the passion of entrepreneurs is one of the most observed phenomena. Many successful entrepreneurs experience tells us that a good entrepreneur can achieve the goal of attracting investors through the rich and full of energy movement or expression expressions. Shepherd and Zacharakis (2001) pointed out that entrepreneur's statement it is often difficult to be confirmed in fuzzy and uncertain business environment. Entrepreneur's personal qualities such as passion, has a key effect on venture capitalist's subjective evaluation, because it often raise the confidence of venture investment in the business plan evaluation. Cardon (2009) proposed entrepreneurial passion is an important factor in investment decisions. Based on the above, this paper proposes the first research hypothesis:

H1: Entrepreneurial narrative passion has a positive influence on the resources acquisition.

### **3.2 Cognitive Legitimacy and Resource Acquisition.**

Many scholars have stressed the importance of legitimacy to start-ups. Stinchcombe (1965) described legitimacy as a "antidote" to a new venture. External stakeholders' evaluation of new

enterprises is often vague because of the uncertainty of the future and the information asymmetry with the new venture. Legitimacy will help motivate investors because it shows that the structure of the enterprise is reasonable and correct, the new venture will be able to use appropriate means to pursue an acceptable target, which means that investment in new enterprises is appropriate (Zimmerman, 2002). Legitimacy increases the opportunity for enterprises to obtain the capital, technology, employees and customers (Aldrich & Fiol, 1994).

Scholars classify the types of legality from the source of legitimacy. It is widely accepted by scholars to divide legitimacy into institutional legitimacy, normative legitimacy and cognitive legitimacy. The institutional legitimacy comes from the rules and regulations formulated by the government, professional institutions, trade associations and other relevant departments. Normative legitimacy comes from the norms and values of society, or the social environment associated with new enterprises. Cognitive legitimacy comes from the widely held beliefs and assumptions that are taken for granted, and these beliefs and assumptions constitute the framework of everyday life (Scott, 1994). In other words, cognitive legitimacy is formed by acceptance and recognition of things or activities. When an activity is known, it has cognitive legitimacy (Aldrich, 1994).

Given that cognitive legitimacy is "the most subtle and powerful" in the three dimensions of legitimacy (Suchman, 1995), especially in startups, cognitive legitimacy is extremely important (Choi & Shepherd, 2005), this paper focuses on the construction of the cognitive legitimacy of the new venture. Due to the lack of historical records and reliable relationships, startups are not well known. Therefore, when enterprises are considered to be "taken for granted", the enterprises gain a high degree of cognitive legitimacy. When investors do not need to think positively about the legitimacy of the enterprise, it indicates that the enterprise has the cognitive legitimacy (Jeffrey & Matthew, 2012). Based on the above, this paper proposes the following hypothesis:

H2: Cognitive legitimacy has a positive influence on the resource acquisition of new ventures.

### **3.3 The mediating effect of cognitive legitimacy in entrepreneurial narrative passion and resource acquisition.**

Passionate entrepreneurs express strong and positive emotions about their companies and ideas. They have been thinking and talking about their ideas, and are busy mobilizing resources to make it happen. The passion shown in the entrepreneurial narrative is important because it can lead investors to be more confident about entrepreneurs. Impassioned statement can help entrepreneurs to expand their social networks and appears more convincing (Baron, 2008), also can lead to emotional contagion to attract the attention of people (Cardon, 2008). Instead, investors might think that entrepreneurs don't have strong confidence, or it is hard for investors to understand and agree the values and concepts described in entrepreneurial narrative while it means the new venture does not have cognitive legitimacy. Therefore, this paper puts forward the following hypothesis:

H3: Entrepreneurial narrative passion has a positive influence on the cognitive legitimacy of the new venture.

H4: The cognitive legitimacy has a mediating effect between entrepreneurial narrative passion and resource acquisition.

## **4. RESEARCH DESIGN AND DATA ANALYSIS**



#### 4.1 Research design

The data in this paper comes from 18 startups in the commercial reality show "winning in China". "Winning in China" is a national TV commercial reality show on CCTV, which has been broadcast three times since 2006. The players show their excellence leadership and business insight through a series of programming arrangements by describing their own start-up companies and projects, thus win the support of the judges and access to venture capital investment. It is a good point of view for the study of reality TV shows while it provides a whole process of observing entrepreneurs themselves and their businesses through telling stories thus enhancing their cognitive legitimacy to seek resource support. The use of coding from media sources is a well-established methodological technique, and this method is just now gaining traction within the domain of entrepreneurship (Martens,2012). One main concern related to the data collection method is external validity. Maxwell(2011) acknowledged concerns related to validity and addressed these succinctly by noting that studies from multiple television shows (e.g., "Who Wants to Be a Millionaire," "Weakest Link," "Deal or No Deal") have "confirmed the general applicability of television shows to 'real world' decision making". The method also proves feasible when Matthew (2012) studied the relationship between effective preparation and resource acquisition by using commercial war programs to encode data.

Building on the works done by Maxwell (2011), Matthew (2012) and other researchers using data collection through coding of television show episodes, we developed specific coding procedures. The coders come from graduate students who have the best academic background in managerial discipline and the best grades. Coder training took place over the course in an entrepreneurship class. Thirty students who were familiar with relevant literatures and our research were chosen as encoders. Each coder watched a set of (six) business narrative videos and filled out the Likert scale questionnaire. The measurement scale of cognitive legitimacy is derived from the measurement scale developed jointly by Jeffrey and Matthew (2012). The measurement scale of entrepreneurial narrative passion is derived from the measurement scale developed by Chen (2009).The measurement indicators of resource acquisition of the new ventures are expressed in terms of the amount of venture capital invested in the program show. The age, gender and educational background of the entrepreneur are selected as the control variables.

#### 4.2 Reliability Analysis and Validity Analysis

(1) Cognitive Legitimacy. We constructed a questionnaire to test the indicator of cognitive legitimacy with five items. Using the data collected, the 5 items were subjected to an exploratory factor analysis (EFA) utilizing principal axis factoring and oblimin rotation, with the screen test criterion used to confirm the items relate to just one factor: A single-factor model was declared and estimated in SPSS Modeler Professional. All 5 items estimated loaded well, with no issues related to low factor loadings (<.50) existing. The estimated factor solution accounted for approximately 64.798% of the total variance in the data and exhibited a KMO measure of .834. Table 1 is the complete list of the items resulting from this EFA. From the result, each of the factor loading of the five items is above 0.7, indicating that the scale has good validity. Cronbach's alpha value is 0.863, indicating that these items achieved an adequate reliability.

**TABLE 1 Exploratory Factor Analysis for Cognitive Legitimacy**

ITEM	Factor Loading	Cronbach's alpha
1. I envision this business receiving high-profile endorsements in the future	0.858	0.863
2. I envision this business receiving favorable press coverage in the future	0.733	
3. Because of the founder's experience, this business has a founder who benefits the organization	0.847	
4. I envision this business having a top management team who will benefit the organization	0.751	
5. I envision this business having the resources to be successful in its industry	0.826	
KMO = 0.834 Bartlett's Test of Sphericity Approx. Chi-Square =408.461 P = 0.000		

(2) Entrepreneurial narrative passion. A questionnaire with 6 items were subjected to an exploratory factor analysis (EFA) utilizing principal axis factoring and oblimin rotation, with the scree test criterion used to confirm the items relate to just one factor: A single-factor model was declared and estimated in SPSS Modeler Professional. All 6 items estimated loaded well, with no issues related to low factor loadings (<.50) existing. The estimated factor solution accounted for approximately 55.963 % of the total variance in the data and exhibited a KMO measure of .764. Table 2 is the complete list of the items resulting from this EFA. From the result, each of the factor loading of the five items is above 0.6, indicating that the scale has good validity. Cronbach's alpha value is 0.842, indicating that these items achieved an adequate reliability.

**TABLE 2 Exploratory Factor Analysis for Entrepreneurial Narrative Passion**

ITEM	Factor Loading	Cronbach's alpha
1. The narrator has energetic body movements	0.781	0.842
2. The narrator has a rich language of action	0.840	
3. The narrator has a vivid expression	0.798	
4. The narrator uses a large number of gestures	0.797	
5. When he/she chats, his/her expression is shining	0.633	
6. The narrator has a different mood and tone.	0.608	
KMO = 0.764 Bartlett's Test of Sphericity Approx. Chi-Square =536.110 P = 0.000		

### 4.3 Correlation and regression analysis

Table 3 shows the analysis results of descriptive statistics and correlation matrix. The results show that entrepreneurial narrative passion is positively correlated with cognitive legitimacy( $r=0.188$ ,  $p<0.05$ ); cognitive legitimacy is positively correlated with resource acquisition( $r=0.516$ , $p<0.01$ ); entrepreneurial narrative passion is not positively correlated with resource acquisition ( $r=0.091$ ,  $p>0.05$ ).

**TABLE 3 Descriptive Statistics and Correlation Matrix**

	1	2	3	4	5	6
1. Age	1					
2. Gender	-0.117	1				
3. Educational background	-0.107	0.261**	1			
4. Entrepreneurial narrative passion	0.203**	-0.070	-0.392**	1		
5. cognitive legitimacy	0.067	0.076	0.048	0.188*	1	
6. resource acquisition	0.050	0.070	-0.025	0.091	0.516**	1
M	32.5556	1.2222	2.9444	3.6102	3.6022	5.8111
SD	2.5506	0.4169	0.91372	0.74059	0.72157	2.2167

Next, the three-step regression method of the mediation mechanism is adopted. The first step is the regression analysis of resource acquisition and entrepreneurial narrative passion (model 1); The second step is the regression analysis of cognitive legitimacy and entrepreneurial narrative passion (model 2); Thirdly, the mediating variables (cognitive legitimacy) and the independent variables (entrepreneurial narrative passion) are incorporated into the regression analysis of the dependent variable (resource acquisition) to obtain the model 3. The results are shown in table 4. The relationship between entrepreneurial narrative passion and resources acquisition does not pass the significance test ( $B=0.107$ ,  $Sig=0.205>0.05$ ), and hypothesis 1 is not supported. Cognitive legitimacy has a significant positive relation to resource acquisition ( $B=0.516$ ,  $Sig<0.01$ ), and hypothesis 2 is verified. The entrepreneurial narrative passion has a significant positive influence on cognitive legitimacy ( $B=0.188$ ,  $Sig<0.05$ ), which is consistent with the relevant analysis results, and hypothesis 3 is supported. Then in model 3, it is found that there is no intermediary mechanism of cognitive legitimacy between entrepreneurial narrative passion and resource acquisition. And hypothesis 4 is not valid.

**Table 4: Entrepreneurial narrative passion and resource acquisition: the regression test of the mediating effect of cognitive legitimacy.**

Independent variables	Dependent variables					
	resource acquisition Model 1		cognitive legitimacy Model 2		resource acquisition Model 3	
	B	Sig	B	Sig	B	Sig
constant	0.360	0.147	-1.732	0.107	0.562	0.010
control variables						
age	0.045	0.563	0.052	0.488	0.017	0.794
gender	0.095	0.236	0.152	0.051	0.015	0.827
educational background	0.047	0.586	0.198	0.019	-0.057	0.455
entrepreneurial narrative passion	0.107	0.205	0.266	0.001	-0.032	0.669
cognitive legitimacy					0.523	0.000
Adjusted R <sup>2</sup>	-0.005		0.053		0.249	
N	180		180		180	

## 5 CONCLUSIONS AND DISCUSSION

Based on the theory of entrepreneurship of entrepreneurial narrative on the influence of resource acquisition, this paper examines the mediating effect between entrepreneurial narrative passion and resource acquisition. The following main conclusions are drawn: (1) the study finds that entrepreneurial narrative passion has a positive influence on enhancing cognitive legitimacy which is conducive to the resource acquisition of entrepreneurial enterprises. It suggests that a passionate narrative in the entrepreneurial story can effectively promote the improvement of the cognitive legitimacy of the new ventures, and thus help them obtain the necessary resources.(2) The research



of this paper does not confirm the positive correlation between entrepreneurial narrative passion and resource acquisition. The reason may be that stakeholders, especially investors, are more concerned with the content of the entrepreneurial narrative than how the entrepreneur narrates the story. Due to information asymmetry and uncertainty, start-up companies need to elaborate more meaningful information and consistent content among entrepreneurs in the narrative and be able to resonate with stakeholders. In this case, entrepreneurial narrative passion, including the expression and action language in the narrative, is not concerned by the stakeholders, nor can it positively influence the investor's resource support to the enterprise.

The research of this paper has the following inspirations for entrepreneurs of start-up companies: first, they should pay attention to storytelling. New ventures due to the lack of business history, information asymmetry need to build its legitimacy through narrative, attract the attention of stakeholders and access to resources so as to solve the critical issue of inadequate resources. Second, entrepreneurs need to make a good story rather than how to tell a story. For a new venture, it's more important to talk about a story than how to tell a story, especially in the process of "persuasion" in the face of potential investors. They should make a rich and meaningful, consistent story with actively expound enterprise vision, mission and values, etc., so as to establish image of known and accepted to the masses. Thus, it can overcome the "threshold of legitimacy" of new enterprises and obtain the resources needed for the survival and development of enterprises.

The research of this paper has made some theoretical contributions to entrepreneurial narrative, legitimacy construction and resource acquisition. However, this research also exist some limitations, mainly including the focus of this article is the cognitive legitimacy building of start-ups, there is no measurement of legitimacy for other types such as institutional legitimacy or normative legitimacy because of the lack of effective data. In addition, more strategic studies on how to build legitimacy, especially cognitive legitimacy, are needed in subsequent studies.

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