

# VU Research Portal

## Acquiring resources for a new venture:

van Werven, R.

2017

### **document version**

Publisher's PDF, also known as Version of record

[Link to publication in VU Research Portal](#)

### **citation for published version (APA)**

van Werven, R. (2017). *Acquiring resources for a new venture: a study of the micro-level linguistic practices of startup entrepreneurs*. Amsterdam Business Research Institute.

### **General rights**

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal ?

### **Take down policy**

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

### **E-mail address:**

[vuresearchportal.ub@vu.nl](mailto:vuresearchportal.ub@vu.nl)

## CHAPTER 1: INTRODUCTION

### 1.1 Resource acquisition by new venture founders

At some stage in the creation of a new venture, most entrepreneurs are likely 'to be faced with the challenge of obtaining external investment to initiate or expand their entrepreneurial venture' (Clarke, 2011: 1367). Financial and human capital (Zott and Huy, 2007), as well as intangible resources like social capital (Brush et al., 2001) and knowledge or expertise (Blair and Marcum, 2015; Kuhn and Galloway, 2013), are needed in order to pursue the opportunity and enable the venture to survive and grow (Martens et al., 2007). Hence, resource acquisition is commonly recognized as a vital entrepreneurial task (Brush et al., 2001; Starr and MacMillan, 1990; Martens et al., 2007).

Resource providers, however, are often reluctant to invest in new ventures (Clarke, 2011; Tornikoski and Newbert, 2007) for two reasons. First, new ventures are uncertain investment opportunities. Because they do not have a reputation or track record (Brush et al., 2001; Dushnitsky, 2010; Rao et al., 2008), the amount of information available to resource providers is limited (Higgins and Gulati, 2006; Stuart et al., 1999). As a consequence, it is difficult to calculate the present value of the future returns from the new venture (Pollack et al., 2012). Second, the lack of externally available information gives entrepreneurs an incentive to misrepresent the facts (Rutherford et al. 2009), which may lead to doubts about their trustworthiness (Aldrich & Fiol 1994). Due to these two factors, 'constructing an initial resource base is an exceptional challenge' (Brush et al., 2001: 64) for new venture founders.

Despite the uncertainty surrounding a new venture, resource providers regularly overcome their reluctance, and decide to invest. They are particularly likely to invest in new ventures that have been founded by entrepreneurs with relevant experience or skills (Packalen, 2007; Maxwell et al., 2011; Tornikoski and Newbert, 2007), or that have already gained support from other established actors (Chen et al., 2008; Higgins and Gulati, 2006; Stuart et al., 1999). Furthermore, entrepreneurs who prepare a business plan, apply for a loan, rent a location, or develop a product (Brush et al., 2008; Samuelsson and Davidsson, 2009) are more likely to be perceived as legitimate (Delmar and Shane, 2004), and more often start their business successfully (Lichtenstein et al., 2007; Manolova et al., 2012). These gestation activities, as well as endorsements and the entrepreneur's experience and skills, thus play a symbolic role, in the sense that they have a meaning 'beyond [their] intrinsic content or obvious functional use'

(Zott and Huy, 2007: 72): they signal that the emerging business is ‘real’ (Carter et al., 1996; Gartner et al., 1992), and worth investing in.

Symbols like the ones discussed above need to be ‘perceived as such by *the receiver of the information who uses it to make an evaluation*’ (Pollock and Gulati, 2007: 343, emphasis in original). So entrepreneurs must ‘be able to use [them] effectively to persuade stakeholders (...) during presentations and other interactions’ (Clarke, 2011: 1368). Hence, merely describing that certain characteristics of a new venture positively affect the likelihood of obtaining resources does not explain how entrepreneurs strategically use them to convince resource providers (Martens et al., 2007; Nagy et al., 2012). To address this shortcoming, and better understand how entrepreneurs acquire resources for a new venture, entrepreneurship researchers have therefore studied symbolic behavior and communication (Martens et al., 2007). For the reasons outlined in section 1.3, my dissertation focuses on new venture founders’ language use. But first, I will give a brief overview of prior research that adopted a linguistic perspective to the study of entrepreneurial resource acquisition.

## **1.2 Linguistic studies of entrepreneurial resource acquisition**

The idea that language is a medium for the transportation of meaning has long been dominant in social sciences. More recently, this assumption has been questioned. As Alvesson and Kärreman (2000: 142) argued, language does not simply mirror ‘objective reality through passively transporting data’, but is ‘active, processual, and outcome oriented. Language is used to persuade, enjoy, engage, discipline, criticize, express feelings, clarify, unite, do identity work, and so on’. Although it took some time before organization studies experienced this linguistic turn, many scholars of organization (e.g., Boje, 2008; Czarniawska, 2004; Gabriel, 2000) – including entrepreneurship researchers (Steyaert, 2007) – now adopt linguistic methods (Phillips and Osrick, 2012). In line with this overall trend, a growing stream of research on entrepreneurial resource acquisition now studies entrepreneurs’ language use. This work predominantly examines the narratives, analogies, and vocabulary used by new venture founders to convince resource providers.

Research on entrepreneurial narratives underlined that language is a shaping force that can be used to construct meaning and persuade an audience. These studies argued that, because there is a lack of externally available, verifiable information about new ventures, narratives can be a suitable means for

convincing resource providers (Aldrich and Fiol, 1994; Lounsbury and Glynn, 2001). One of the reasons for the attractiveness of narratives is that they can be used to present information in a meaningful, recognizable, and simple way (Czarniawska, 2004; Martens et al., 2007), and thereby reduce the uncertainty with which decisions to invest in a new venture are typically surrounded (Lounsbury and Glynn, 2001; Pollack et al., 2012). Furthermore, narratives can help generate interest and commitment, and thus engage resource providers, because they allow entrepreneurs to present their venture as an independent social actor that possesses certain distinct qualities (Golant and Sillince, 2007; Navis and Glynn, 2011).

Like prior work on entrepreneurial narratives, research on the analogies used by new venture founders goes beyond the 'language-as-mirror logic' (Alvesson and Kärreman, 2000). These studies found that, by analogically comparing a new venture to other organizations, entrepreneurs 'anchor new interpretations in already familiar categories of meaning' (Navis and Glynn, 2011: 490). As a consequence, resource providers will better comprehend the venture's activities and therefore perceive less uncertainty (Cornelissen and Clarke, 2010; Hill and Levenhagen, 1995). Enhanced comprehensibility and reduced uncertainty in turn make it more likely that a new venture is seen as cognitively legitimate (Aldrich and Fiol, 1994; Suchman, 1995). Hence, analogies can shape resource providers' evaluations, i.e., have the potential to 'guide thinking and create understanding and social acceptance' (Cornelissen and Clarke, 2010: 544).

In addition to narratives and analogies, entrepreneurship scholars have studied the vocabulary that entrepreneurs use. The term vocabulary refers to 'systems of words, and the meaning of these words, used by collectives at different levels of analysis (...) in communication, thought, and action' (Loewenstein et al., 2012: 45). The vocabulary of new venture founders has been found to contribute to their ability to secure resources (Allison et al., 2013; Allison et al., 2014; Parhankangas and Ehrlich, 2014; Moss et al., 2014). Vocabularies are persuasive because they invoke widely understood concepts and meta-narratives that make the new venture seem more predictable and reliable (Ruebottom, 2013), and because they are a means to appeal to resource providers' interests (Allison et al., 2014; Moss et al., 2014). By showing that words can convince resource providers, these studies have moved beyond the language-as-mirror logic, and demonstrated that 'a vocabulary does not just reflect or transmit meaning but is constitutive of meaning' (Loewenstein et al., 2012: 43).

### **1.3 Aim of this dissertation**

Taken together, linguistic studies of entrepreneurial resource acquisition have demonstrated that narratives, analogies, and vocabulary serve to overcome resource providers' reluctance to invest in new ventures. However, these studies are limited in the sense that they neglect a vital aspect of entrepreneurial communication. Although narratives contain 'structures of reason that can be identified as specific forms of argument' (Carranza, 1999: 514), which cannot 'be neglected for the sake of the manifest stories' (Feldman and Sköldberg, 2002: 289), narrative entrepreneurship research does seem to neglect argumentation. With the exception of research that examines entrepreneurs' use of analogies (Cornelissen and Clarke, 2010; Etzion and Ferraro, 2010; Hill and Levenhagen, 1995; Navis and Glynn, 2011), studies of argumentation in entrepreneurship are scarce. Hence, linguistic entrepreneurship research to date does not give a comprehensive overview of the rhetorical devices entrepreneurs have at their disposal.

The little attention paid to micro-level argumentation is problematic because it remains unclear what role micro-level arguments play as part of other rhetorical devices, such as narratives. The plausibility of entrepreneurial narratives may be doubted because they create expectations regarding the future of a new venture that may turn out to be unrealistic (Garud et al., 2014a). Prior linguistic work did not study how entrepreneurs convince resource providers of their projections of the future. Instead, it emphasized the implicit nature of new venture founders' language use, arguing that by telling a story or using a particular vocabulary, entrepreneurs can 'suggest' that a venture is an attractive investment opportunity, or 'invoke' well-known concepts or values (e.g., Aldrich and Fiol, 1994; Ruebottom, 2013). These studies therefore assume that resource providers interpret narratives and vocabulary in a way that is consistent with the intentions of the entrepreneur. However, narratives are subject to many different interpretations (Barry and Elmes, 1997; Boje, 2008; Garud et al., 2014b), some of which may be critical of the message the entrepreneur conveys. Studying the micro-level arguments of entrepreneurs can address this shortcoming, because it can generate insights into how arguments are 'used to support the story with evidence' (Bex and Verheij, 2012: 329).

In addition, linguistic entrepreneurship research does not explain how new venture founders align their venture verbally with the values and interests of resource providers. Entrepreneurs that do so successfully have achieved resonance, i.e., strike 'positive emotional chords with investors' (Navis and

Glynn, 2011: 490). Previous narrative studies argued that entrepreneurs who attend to the sociocultural context in which their audience is embedded (Martens et al., 2007) by verbally inserting their venture in the appropriate frame of reference (Golant and Sillince, 2007) are most likely to achieve resonance. These studies, however, do not specify what rhetorical devices entrepreneurs use to do so (Ruebottom, 2013). Research on vocabulary argued that by using the right words, entrepreneurs can appeal to their audience (Allison et al., 2013; Allison et al., 2014; Parhankangas and Ehrlich, 2014; Moss et al., 2014). Because arguments can be used to persuade ‘the audience by drawing on its cultural beliefs and attitudes’ (Hartelius and Browning, 2008: 24), examining the micro-level argumentation of new venture founders can complement these findings, and contribute to a more fine-grained understanding of the way entrepreneurs make their message resonate with resource providers.

A further limitation of previous linguistic research on entrepreneurial resource acquisition is that most studies focused on the language entrepreneurs use when attempting to obtain tangible – mostly financial – resources. This is surprising, given that new venture founders often also lack intangible resources, such as knowledge and expertise (Blair and Marcum, 2015; Kautonen et al., 2010), and that, therefore, ‘external advice is a critical resource that should increase the likelihood of survival and success’ (Kuhn and Galloway, 2013: 571). Outside the entrepreneurial context, researchers found that an advisor’s argumentation (Feng and Burlison, 2008; Tzioti et al., 2013), and the way the advice is phrased (Brown and Levinson, 1987; Feng and MacGeorge, 2010; Goldsmith and MacGeorge, 2000), play a key role for decision makers in determining whether the acquired knowledge is helpful. Prior work on entrepreneurs’ acquisition of knowledge did not study the communication that occurs in meetings between entrepreneurs and knowledge providers. Analyzing these interactions can advance linguistic entrepreneurship research by showing how entrepreneurs clarify their venture idea, how the providers of (nonfinancial) resources criticize it, and how both parties attempt to persuade one another. Broadening the scope of linguistic entrepreneurship research by including the acquisition of nonfinancial resources can thus shed more light on the role language plays in shaping the development of new ventures.

In sum, although entrepreneurship research after the linguistic turn has made significant advancements in elaborating on the language new venture founders use to convince resource providers, certain aspects of entrepreneurial communication have been left unexplored. First, prior work mainly analyzed meso-level communication such as narratives, and therefore does not provide a comprehensive overview of

the micro-level arguments entrepreneurs can use to convince resource providers. Second, the way in which new venture founders use micro-level arguments to strengthen the plausibility and resonance of their narratives remains to be examined. Third, most research in the linguistic tradition did not study interactions between advisors and entrepreneurs seeking to acquire knowledge and expertise. The aim of this dissertation is to address these limitations, and thereby advance our understanding of the linguistic practices of entrepreneurs who strive to acquire resources (both financial and nonfinancial) for a new venture.

#### **1.4 Research approach**

To address the broad research problem defined above, I conducted a longitudinal qualitative case study. Case studies are used when researchers aim to ‘understand an issue or problem using the case as a specific illustration’ (Creswell, 2007: 73). In my dissertation, I use the findings from my research at AMcubator<sup>1</sup>, an Amsterdam-based business incubator, to understand the linguistic practices of new venture founders who attempt to acquire resources. A qualitative approach is suitable because it allows ‘for analysis of the meaning and codes that underpin language’ (Ruebottom, 2013: 101). Both empirical studies included in this dissertation draw from the data collected at the business incubator.

A business incubator is an organization that helps new ventures ‘develop quickly into competitive businesses’ (Hughes et al., 2007: 155). To achieve this aim, business incubators create an ‘environment that is conducive to the ‘hatching’ and development of new firms’ (Bergek and Norrman, 2008: 20). Incubators are a relevant setting for my research because they target new ventures, and also because they assist new venture founders in the process of resource acquisition. Amongst other things, entrepreneurs are prepared for interactions with the providers of financial resources (McAdam and Marlow, 2011), and receive the opportunity to get business support and advice (Bergek and Norrman, 2008; Lefebvre and Redien-Collot, 2013), which allows them to acquire knowledge. AMcubator is a typical business incubator in that sense, because it offers pitch training sessions and organizes speed-meetings during which entrepreneurs can benefit from the knowledge and expertise of one hundred mentors.

I mainly collected data by making audio recordings of naturally occurring speech, in particular the pitches that the entrepreneurs rehearsed and the conversations they had with mentors. Because I was

---

<sup>1</sup> In this dissertation, the names of the incubator, the new ventures, and the mentors have been changed to ensure anonymity.

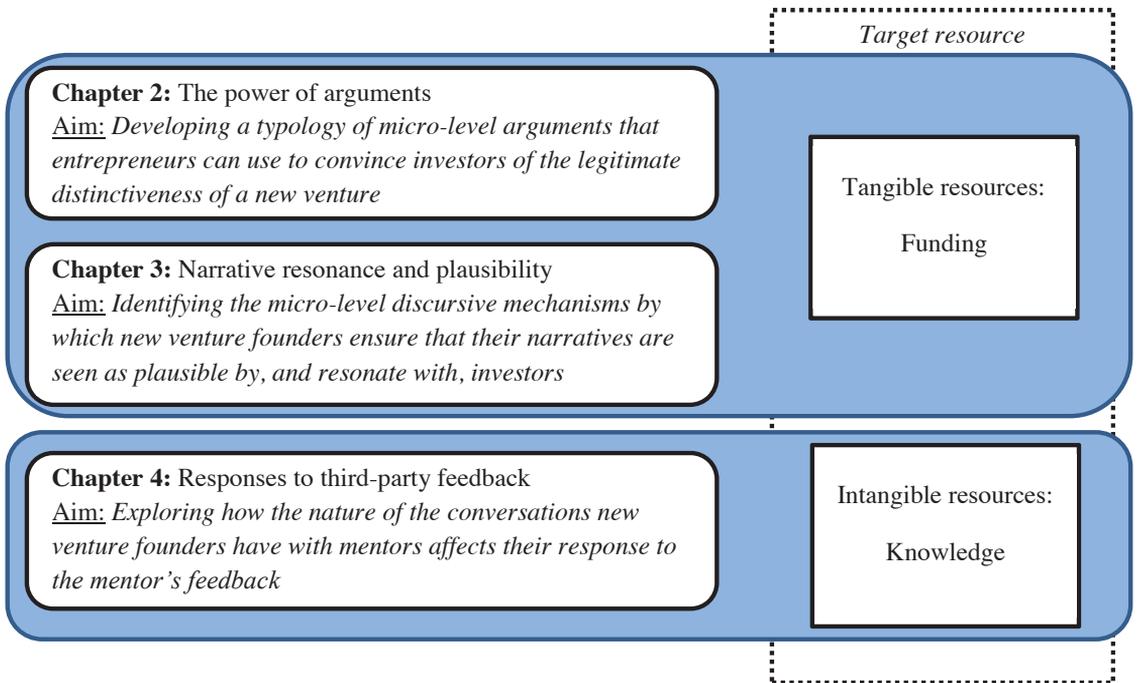
physically present at the AMcubator office, I was able to do observations and make field notes that complemented my audio data. In addition, I conducted informal interviews during breaks between sessions and formal interviews near the end of the incubator program, with both the AMcubator management and the founders of the ventures that were admitted to the program. Finally, I gathered secondary data by regularly checking the websites and Twitter feeds of each of the ten new ventures that were admitted to the program, and by reading some of the literature that the entrepreneurs were recommended to consult, such as *the Lean Startup* (Ries, 2011).

I analyzed the data using various approaches to discourse analysis. Phillips and Osrick (2012) distinguish between four levels of discourse analysis: micro-level, meso-level, macro-level, and multi-level. Micro-level analysis often manifests itself as the analysis of real-time interactions, and commonly focuses on issues like strategizing and decision-making. This has been my approach in chapter 4, where I study the recordings I made of conversations between entrepreneurs and mentors. At the meso-level of discourse analysis, research often uses narrative analysis to study texts, or to interpret accounts given by respondents (Phillips and Osrick, 2012). In my first empirical study (chapter 3), I analyze the narratives that the entrepreneurs presented to investors based on Toulmin's (1994) theory of micro-level argumentation, and hence use a combination of meso-level and micro-level discursive analysis. In the next chapters, I will discuss the approach used in each of the empirical studies in more detail.

## **1.5 Dissertation outline**

Using the approach discussed above, this dissertation presents one conceptual paper and two empirical studies. Each of the individual papers contributes to the overall aim of the dissertation: examining the linguistic practices of entrepreneurs who strive to acquire resources (both financial and nonfinancial) for a new venture. As shown in Figure 1, the studies that will be discussed in chapters 2 and 3 focus on the micro-level arguments new venture founders use to convince investors, in order to obtain financial resources. Chapter 4 introduces an analysis of interactions between entrepreneurs seeking to acquire knowledge and mentors supplying their expertise.

**Figure 1.1: Overview of the individual papers constituting the dissertation**



### 1.5.1. The power of arguments (chapter 2)

Chapter 2 is a conceptual paper, which introduces a typology of micro-level arguments that entrepreneurs can use to convince investors of the legitimate distinctiveness of a new venture. Being evaluated as legitimately distinct is crucial, because investors are more likely to provide a new venture with resources when an entrepreneur makes ‘legitimizing claims that align the entrepreneurial endeavor with expectations arising from institutionalized conventions and (...) distinctiveness claims that distance it from such institutionalized conventions in ways that are meaningful’ (Navis and Glynn, 2011: 480).

Except research discussing the role of analogies (Cornelissen and Clarke, 2010; Etzion and Ferraro, 2010; Hill and Levenhagen, 1995), prior studies on entrepreneurial resource acquisition do not specify what rhetorical devices entrepreneurs can use to make legitimating and distinctiveness claims. Based on work by scholars of argumentation (Brockriede and Ehninger, 1960; Toulmin, 1994; Perelman, 2008), we argue that new venture founders have a broad repertoire of micro-level arguments at their disposal to

claim legitimate distinctiveness. More specifically, we propose that – in addition to arguments by analogy – entrepreneurs can use arguments by sign, cause, classification, generalization, and authority.

By identifying the aforementioned five types of argument, that have not been recognized in prior entrepreneurship research, we contribute to a more refined understanding of the rhetorical devices entrepreneurs use to persuade investors. In addition, our typology of arguments adds detail to existing studies on the notion of legitimate distinctiveness (e.g., Navis and Glynn, 2011) within the entrepreneurship field. Specifically, and in line with prior work on the rhetorical dimensions of categorization (e.g., Potter, 1996), we explain how arguments can be used to constitute a new venture by positioning it within or outside existing market categories. Finally, the typology in chapter 2 adds a micro-level approach to the growing stream of research on the role of language in entrepreneurship (Phillips and Oswick, 2012; Steyaert, 2007), which has to date predominantly focused on broader discursive approaches, such as narratives.

#### 1.5.2. Narrative resonance and plausibility (chapter 3)

In chapter 3, the results of an argumentation analysis of the pitches given by the entrepreneurs who were admitted to AMcubator's incubation program are reported. We focus on the micro-level argumentation underlying the entrepreneurs' pitch narratives, in order to find out how they attempted to achieve narrative resonance and plausibility. Prior work argued that the effectiveness of a narrative is determined by its resonance – defined as the extent to which it strikes 'positive emotional chords with investors' (Navis and Glynn, 2011: 490) – and its plausibility, i.e., 'acceptability as an interpretation of events' (Bartel and Garud, 2009: 111), but did not explain in detail how entrepreneurs can establish narrative resonance and plausibility.

We find that entrepreneurs can enhance the plausibility of their pitches by backing their claims with verifiable information, and providing multiple reasons in support of each claim they made. They can ensure that their pitch resonates with an audience of investors by addressing factors that investors typically consider when deciding to endow a new venture with resources, and by constructing enthymemes: micro-level arguments of which a part is missing (Feldman et al., 2004). The enthymemes used by the entrepreneurs in our sample often did not contain explicit claims, which encourages the audience to complete the argument. Hence, the entrepreneurs draw investors into the argument, which

makes it more likely that their pitch will resonate (Feldman and Sköldbberg, 2002; Hartelius and Browning, 2008).

Outlining how entrepreneurs rhetorically achieve narrative resonance and plausibility complements earlier narrative studies of entrepreneurship (e.g., Lounsbury and Glynn, 2001; Martens et al. 2007; Navis and Glynn, 2011), which stopped short of explaining how new venture founders make sure that their narratives resonate and are perceived as plausible. It signals the fruitfulness of integrating insights from argumentation theory into narrative research: analyzing micro-level argumentation contributes to a better understanding of entrepreneurial communication at higher levels of analysis. Chapter 3 also extends earlier studies of argumentation in entrepreneurship (Holt and Macpherson, 2010; van Werven et al., 2015) by highlighting the role of enthymemes in the micro-level argumentation of new venture founders.

#### 1.5.3. Responses to third-party feedback (chapter 4)

Chapter 4 is based on an analysis of the speed-meetings sessions that were organized by AMcubator in order to give the entrepreneurs an opportunity to talk to experienced mentors to acquire the knowledge they might need to further develop their venture. Previous entrepreneurship research demonstrated that third-party feedback can benefit new venture founders (e.g., Kuhn and Galloway, 2013; Rotger et al., 2014; Wood and McKinley, 2010). These studies, however, did not explain what entrepreneurs and their advisors do or say during their meetings, nor under what conditions entrepreneurs are more or less receptive to feedback.

The findings of chapter 4 indicate that on the one hand, new venture founders who explicitly request advice generally display receptiveness to the feedback they receive in return, which they often do not do in response to unsolicited advice. This is in line with the findings from experimental studies on advice taking (Bonaccio and Dalal, 2006; Feng and Macgeorge, 2006; Goldsmith, 2000). On the other hand, entrepreneurs do not always express satisfaction or agreement with the feedback they get in response to an explicit request, and sometimes change their displayed (skeptical) stance towards unsolicited advice. The former occurs when the feedback is not a detailed or supportive response to their request. The entrepreneurs' displayed attitude towards unsolicited feedback changes when mentors focus on a

specific aspect of the venture idea, discuss it in detail, and subsequently come up with recommendations that they think can help the entrepreneur to improve on that particular aspect.

The findings described in chapter 4 complement previous research on the role of third-party feedback in entrepreneurship (Kuhn and Galloway, 2013; Rotger et al., 2014; Wood and McKinley, 2010), by specifying in which situations new venture founders are most likely to display receptiveness to advice. Furthermore, we contribute to research on advice taking (Bonaccio and Dalal, 2006; Feng and Macgeorge, 2006; Goldsmith, 2000), which has used a static approach to studying advice interactions and thus did not recognize that advice recipients can change their response to feedback over the course of a conversation with an advisor. Finally, chapter 4 provides a potential explanation for the mixed findings of prior research on business incubators regarding the added value of these organizations (Bruneel et al., 2012; Clarysse and Bruneel, 2007). If entrepreneurs do not respond positively to the feedback they receive from incubator mentors, they might not consider it helpful and therefore decide not to utilize it. Hence, being incubated may not necessarily increase the speed with which entrepreneurs develop a new venture.

## **1.6 Presentations and publications**

In this chapter, I introduced the three papers that together make up my dissertation. In the upcoming three chapters, each paper will be presented. I will conclude the dissertation with a discussion of the implications of the studies and suggestions for future research in chapter 5. Table 1.1 gives an overview of the output of my research in terms of journal publications and conference presentations.

**Table 1.1: Dissertation output**

Chapter	Published and presented papers
2	<p><u>Published as:</u> Van Werven, R., Bouwmeester, O., and Cornelissen, J.P. (2015). The power of arguments: How entrepreneurs convince stakeholders of the legitimate distinctiveness of their ventures. <i>Journal of Business Venturing</i>, 30 (4): 616-631.</p> <p><u>Presented as:</u> Van Werven, R., Bouwmeester, O., and Cornelissen, J.P. (2013). Stressing legitimacy or distinctiveness? The argumentation strategies of new firm founders, at the <i>Academy of Management Annual Meeting</i> in Orlando, August 9-13.</p> <p>Van Werven, R., and Bouwmeester, O. (2012). Resource acquisition by new venture founders: Communicating a legitimate identity, at the <i>28<sup>th</sup> EGOS Colloquium</i> in Helsinki, July 5-7.</p>
3	<p><u>Presented as:</u> Van Werven, R., Bouwmeester, O., and Cornelissen, J.P. (2016). Achieving narrative plausibility and resonance: A study of the micro-level arguments underlying entrepreneurial narratives, at the <i>32<sup>nd</sup> EGOS Colloquium</i> in Naples, July 7-9.</p>
4	<p><u>Presented as:</u> Van Werven, R., Cornelissen, J.P., and Bouwmeester, O. (2016). New venture founder's responses to third-party feedback, at the <i>Academy of Management Annual Meeting</i> in Anaheim, August 5-9.</p>