

Research on the effect of entrepreneurial preparedness on resource acquisition-- a mediation mechanism based on cognitive legitimacy

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Abstract:

The acquisition of external resources in the process of entrepreneurship is not only significant to the survival and development of start-ups, but also a challenging task. Under the trend of "Linguistic Turn" in the field of social science, the role of narrative in the entrepreneurial process has attracted more and more attention and research, especially the acquisition of external resources. This paper discusses the effect of entrepreneurial preparedness on resource acquisition, and examines the mediating mechanism of cognitive legitimacy. In this paper, the narratives of 18 entrepreneurs from a business reality show is selected as the research samples. The results show that entrepreneurial preparedness has a significant positive influence on cognitive legitimacy, and cognitive legitimacy has a significant positive relation on resource acquisition; also the relationship between entrepreneurial preparedness and resources acquisition pass the significance test and there is intermediary mechanism of cognitive legitimacy between entrepreneurial preparedness and resource acquisition.

Key words: entrepreneurial preparedness, resource acquisition, cognitive legitimacy, new venture

1、 Introduction

Getting external resources is not only a key job for a startup, but also a challenging task. The main reason for this challenge is the uncertainty of the new enterprises (Villanueva, 2012). Stinchcombe (1965) argue that startups are full of "novelty". They have no past performance records and are hardly to ensure the quality of products and services while outsiders are not familiar with their identity and activity. This means that potential investors are reluctant to provide their resources in highly uncertain startups. Another factor that causes difficulties in acquiring entrepreneurial resources is the information asymmetry between entrepreneurs and investors. Entrepreneurs have unique, uninformed information about their companies which they may not be willing to share with potential resource providers. Therefore, the enthusiasm of investment is inevitably affected under the condition that potential investors are at an information disadvantage (Shane, 2003). These defects are known as the "threshold of legitimacy" (Zimmerman, 2002), which often leads to the failure of start-ups to get external resources.

Existing literature suggests some strategies that entrepreneurs can use to overcome the challenge of accessing external resources. The first kind of strategy focuses on social capital and network relations (Stuart & Sorenson, 2007; Shane & Cable, 2002). The literature on the social relations of entrepreneurs has shown that extensive social capital and network relations can improve the ability of start-ups to obtain external resources (Florin, Lubatkin & Schulze, 2003). Social relations provide a mechanism for investors to obtain more information about investment opportunities, thus reducing information asymmetry (Shane & Cable, 2002). On the other hand, having a reliable network can give an entrepreneur a good reputation, which means that a new business has positive characteristics. However, the theoretical discovery of this kind of entrepreneurs' resource acquisition strategy lacks certain practical value for most new enterprises, because it is hard for new businesses to change their social capital and network relationships easily, at least in the short term. The second type of strategy involves the specific actions and skills of entrepreneurs which include impression management (Baron & Markman, 2003), symbolic action (Zott & Huy, 2007) and persuasive communication (Chen, Yao & Kotha, 2009). Baron and Markman (2003) found that successful entrepreneurs scored high in social skills, including impression management, persuasive communication and emotion regulation. Huy and Zott (2007) had shown that the symbolic actions of entrepreneurs have a positive role in accessing resources by passing the personal reputation, professional ability, the achievements of the past, and the quality of interpersonal relationships. In terms of specific communication strategies, the researchers discussed the influence of the production and presentation of business plans and the practice of entrepreneurial narrative on resource acquisition (Delmar &

Shane,2004).

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).This paper will discuss how to obtain external resource support from the perspective of entrepreneurial narrative. In particular, this paper will discuss the key role of entrepreneurial preparedness and examine the mediating role of cognitive legitimacy. The research of this paper is a positive response to the "narrative turn" in the field of social science. It also makes up for the deficiency of the process mechanism of how narrative influences the acquisition of entrepreneurial resources in previous studies.

2、 Theoretical background

2.1 Narrative and Entrepreneurial Studies

Narrative research is a phenomenon of the development of "Linguistic Turn" which not only emerge in the entrepreneurship research but also are widespread in the social sciences(Deetz,2003; Alvesson & Karreman,2000). In the 1990s, with the deepening of studies on organizational culture and symbolic meaning, narrative research has also been widely used in exploring organizational meaning. Scholars recognize that storytelling is an important means for managers to acquire knowledge in their work, and suggest that stories be a reliable source of research (Hummel, 1991).

An important contribution of narrative research is that it focuses on the issue of immediacy in organizations. Narration includes the unfolding of stories and experiences over time. Plot is a key feature of narrative which needs to understand the time and its structure of the story (Boje, 2001). In this sense, narrative is oriented at the present time, rather than as "a set of valid and logical principles that are valid at all times" (Czarniawska, 1997). Another value of narrative research is that it allows for the consideration of different possible meanings of organizations (Rhodes, 2001). This makes the study focus not only on the subject as a single fact, but also on the diversity of possible stories and storytellers.

In the field of entrepreneurship research, entrepreneurial narrative is considered as the basis for understanding enterprises and entrepreneurs(Johansson,2004;Larty & Hamilton,2007). One of the key problems of narrative in the field of entrepreneurship is to explain the identity construction of entrepreneurs(Ibarra & Barbulescu, 2010). 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(Hamilton,2013). 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(Williams et.al,2016). 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 Preparedness in Entrepreneurial Narrative

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 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 resource acquisition through narrative can be regarded as a process of "persuasion" (Chen, 2009). The meaning conveyed by the story is very important in this process. A good story which including a thoughtful plot and a reasonable ending, shows the time and cost that entrepreneurs spend, or how they prepare for it (Elsbach & Kramer, 2003). Therefore, this paper defines preparedness as the readiness of entrepreneurs for narrative.

Entrepreneurial preparedness is an emerging concept within the entrepreneurial learning literature which is broadly defined as "a cumulative learning process" (Cope 2005). Along with the learning and development of entrepreneurship, a large number of academic interests have been aroused including how do entrepreneurs acquire and accumulate knowledge, skills and experience to prepare for entrepreneurial activities (Wang & Chugh 2014). In the context of external resources acquisition through entrepreneurial narrative, entrepreneurial preparation is particularly important. Entrepreneurial preparedness reflects how entrepreneurs think about the historical development, market competition, future plans, and potential investment gains of start-ups. On the other hand, investors need to evaluate this information according to their own professional knowledge and experience, and judge whether start-ups meet the general concepts, norms and standards of the industry. In a broader sense, this is the concept of legitimacy.

2.3 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.

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).

3、 Research hypothesis

3.1 Entrepreneurial Preparedness 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. In an entrepreneurial narrative, preparedness usually means a good deliverable, interesting and appropriate "script" (Jeffrey & Matthew, 2012). Considering the entrepreneurs will face a lot of problems, precise sensible answer will signal to the investors that the founders in the new enterprise invested a lot of time and resources as well as they have much confidence in corporate success. Jeffrey and Matthew (2012) believed that in the process of "persuasion" of start-ups, entrepreneurial preparedness can positively influence the financial support of potential investors. Based on the above, this paper proposes the following hypothesis:

H1: Entrepreneurial preparedness 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).

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 preparedness and resource acquisition.*

The goal of narrative is to prove rationality and establish the confidence of enterprise success, so entrepreneurial narrative can positively influence the evaluation of the company. Positive preparedness reflects the consideration and hard work of entrepreneurs on the company's growth, which can alleviate external concerns and help stakeholders better understand the company. By preparedness in the narrative, entrepreneurs can positively influence the opportunity to gain cognitive legitimacy. Therefore, this research believes that the preparedness in the entrepreneurial narrative can improve the cognitive legitimacy of enterprises, and the improvement of cognitive legitimacy will lead to the possibility of obtaining more financial support from potential investors. Therefore, this paper puts forward the following hypothesis:

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

H4: The cognitive legitimacy has a mediating effect between entrepreneurial preparedness 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 preparedness 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 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 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 preparedness. 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 Preparedness

ITEM	Factor Loading	Cronbach's alpha
1. The entrepreneurial narrative contains substance	0.747	0.832
2. The entrepreneurial narrative is well thought out	0.829	
3. The entrepreneurial narrative is consistent and logical	0.778	
4. The entrepreneurial narrative clearly explains the rationality of the business plan	0.780	
5. The entrepreneurial narrative cites facts to support his argument	0.746	

KMO = 0.802 Bartlett's Test of Sphericity Approx. Chi-Square =331.739 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 preparedness is positively correlated with cognitive legitimacy($r=0.582, p<0.01$); cognitive legitimacy is positively correlated with resource acquisition($r=0.516, p<0.01$); entrepreneurial preparedness is positively correlated with resource acquisition ($r=0.475, p<0.01$).

TABLE3 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 preparedness	-0.131	0.220**	0.073	1		
5. cognitive legitimacy	0.067	0.076	0.048	0.582**	1	
6. resource acquisition	0.050	0.070	-0.025	0.475**	0.516**	1
M	32.5556	1.2222	2.9444	3.9289	3.6022	5.8111
SD	2.5506	0.4169	0.91372	0.65068	0.72157	2.2167

N=180; * P<0.05; ** P<0.01 (2-tailed).

Next, the three-step regression method of the mediation mechanism is adopted. The first step is the regression analysis of resource acquisition and entrepreneurial preparedness (model 1); The second step is the regression analysis of cognitive legitimacy and entrepreneurial preparedness (model 2); Thirdly, the mediating variables (cognitive legitimacy) and the independent variables (entrepreneurial preparedness) 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 preparedness and resources acquisition pass the significance test ($B=0.503$ Sig= $0.000 < 0.05$), and hypothesis 1 is supported. Cognitive legitimacy has a significant positive relation to resource acquisition ($B=0.516$, Sig <0.01), and hypothesis 2 is verified. The entrepreneurial preparedness has a significant positive influence on cognitive legitimacy ($B=0.609$, Sig <0.01), which is consistent with the relevant analysis results, and hypothesis 3 is supported. Then in model 3, it is found that the effect of entrepreneurial preparedness on resource acquisition is reduced ($B=0.291 < B=0.503$). There is intermediary mechanism of cognitive legitimacy between entrepreneurial preparedness and resource acquisition. And hypothesis 4 is valid.

Table 4: Entrepreneurial preparedness 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	0.099	-1.740	0.054	0.494	0.019
control variables						
age	0.104	0.123	0.143	0.022	0.054	0.403
gender	-0.045	0.528	-0.039	0.549	-0.031	0.644
educational background	-0.062	0.373	0.009	0.891	-0.065	0.325
entrepreneurial preparedness	0.503	0.000	0.609	0.000	0.291	0.000
cognitive legitimacy					0.349	0.000
Adjusted R ²	0.225		0.347		0.301	
N	180		180		180	

5. Conclusion and discussion

Based on the literatures of entrepreneurial narrative on the influence of resource acquisition, this paper discusses the effect of entrepreneurial preparedness on resource acquisition, and examines the mediating mechanism of cognitive legitimacy. The following main conclusions are drawn: (1) The study finds that entrepreneurial preparedness has a positive influence on enhancing cognitive legitimacy which is conducive to the resource acquisition of entrepreneurial enterprises. It suggests that a well-prepared 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 confirm the positive correlation between entrepreneurial preparedness and resource acquisition and the mediating effect of cognitive legitimacy is also verified. The result shows that entrepreneurs can gain cognitive legitimacy by telling a thoughtful and well-prepared story and thus get resources support.

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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