Preparedness and Cognitive Legitimacy as Antecedents of New Venture Funding in Televised Business Pitches

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This research addresses the question of what specific entrepreneurs' behavior increases the propensity for resource acquisition. Within the context of business “pitches,” we explore subtleties in the process via a theoretically derived model linking entrepreneurs’ preparedness behavior, perceived cognitive legitimacy, and amount of funding received. We test this model using data coded from two sources: 14 episodes of the television show “Shark Tank” that aired in 2009, as well as 84 episodes of “Dragons Den” that aired from 2005 to 2010. Within these episodes, we specifically examine the 113 individual business pitches that received funding. Overall, results suggest the relationship between entrepreneurs’ preparedness behavior and the amount of funding received is mediated by cognitive legitimacy. Specifically, entrepreneurs’ increased preparedness behavior was positively related to increased cognitive legitimacy. Cognitive legitimacy, in turn, was positively related to amount of funding received. We offer thoughts regarding implications from both theoretical and practical perspectives.

Introduction

To sustain and grow their ventures, it is crucial for early stage entrepreneurs to engage in behaviors related to acquiring financial support. Unfortunately, the efforts of these entrepreneurs to acquire crucial resources often fail due to inherent liabilities of newness and smallness (Aldrich & Fiol, 1994; Delmar & Shane, 2004). Consequently, the prospects for the success of new ventures are precarious (Timmons, 1999).

Over 40 billion dollars is awarded each year to entrepreneurs in the United States by equity financiers, including angel investors and venture capitalists (Angel Capital Association, 2012; National Venture Capital Association, 2012). These investments...
enable entrepreneurs to create new jobs, develop innovative products, and speed economic growth. Accordingly, from both practical and theoretical viewpoints, research regarding entrepreneurs’ behavior that can facilitate the attainment of resources from financiers is among the most pressing issues for entrepreneurs and scholars (Aldrich & Fiol, 1994; Baron, 2007; Delmar & Shane, 2004; Maxwell, Jeffrey, & Lévesque, 2011). Though it is widely accepted that “Asking for funds is a behavior . . .” (Bird & Schjoedt, 2009, p. 335), as researchers we know little about what specific entrepreneurs’ behavior increases the propensity for this type of resource acquisition.

One emerging area of study on resource attainment behavior that resides at the confluence of research and practice relates to the “business pitch.” The business pitch represents efforts on the part of an entrepreneur (i.e., the pitcher) to entice an investor (i.e., catcher) to provide resources (e.g., capital). In the present research, consistent with calls for behaviorally anchored inquiry, we examine subtleties of entrepreneurs’ communication-focused behavior of pitching (e.g., Bird, 1989; Bird & Schjoedt, 2009). As Bird and Schjoedt (p. 342) noted, “Communication is critical to overcoming the liabilities of newness since actions taken to legitimize, create positive perception or reputation, and establish reliable production, delivery, and accountability systems all involve communication or display.” In sum, entrepreneurs who seek resources from investors via pitching engage in a form of communication that constitutes behavior.1 And, this behavior (of pitching) is critical as objective organizational performance measures that can demonstrate to potential investors that a venture is a viable investment option are generally not available. The lack of information related to operating revenues and expenses can severely deter the investment process, as the basic axiom of investment theory remains that an investor will invest only when the present value of the future returns from the new venture is calculated and known to be greater than the proposed present value of the investment (Brealey & Myers, 1991). Therefore, the pitch is a critical portion of the entrepreneur’s signaling and enticement strategy. In some cases, it is the entrepreneur’s only signaling strategy (Aldrich, 1999; Elsbach, 2003).

Two primary theoretical contributions arise from the present work. First, we propose and test a model through which entrepreneurs’ behavior affects funding decisions by investors. In doing so, we move beyond extant conceptualizations of the relation between preparedness and funding. We draw on the narrative sensemaking literature and delve deeply into the construct of cognitive legitimacy to provide theoretical clarification—we show, theoretically and empirically, that cognitive legitimacy is the mediating mechanism through which preparedness behaviors influence funding decisions. This extension to the literature provides a theory-based model by which researchers, entrepreneurs, and investors can more clearly understand how funding decisions are made and by what processes decisions can potentially be influenced. Second, we offer a theoretically driven (and empirically validated) conceptualization of how cognitive legitimacy can be assessed. This measurement clarification can help to move the field forward by eliminating unnecessary variance that may distort findings and/or lead to contradictory findings when examining preparedness and investors’ funding decisions.

We elaborate on the above extensions of the literature in the following sections. First, we examine the extant research on the pitch and the subtle behaviors enacted in the pitching process. Using narrative sensemaking as a theoretical base, we specifically review the literature on the behavioral nature of preparedness as a communication process. Then, we review how this communication behavior leads to perceived cognitive

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1. Thanks to the editorial team for insights here.
legitimacy. Within the legitimacy discussion, we highlight the mediating role of cognitive legitimacy between entrepreneurial actions, signals, and behaviors related to the pitching process and new venture funding. We then present the context and results of our study, followed by a discussion of the implications and limitations. We conclude by offering directions for future research efforts.

Theoretical Background

The Pitch

Why study the business pitch? Central to the broad activity of opportunity exploitation is interaction with stakeholders (Baron & Markman, 2000, 2003), and the communication-focused behavior of pitching to potential equity stakeholders, such as angel investors and venture capitalists, is one of the most important behaviors that an entrepreneur will enact in the exploitation process (Mason & Harrison, 2001). Though it is true that a good pitch likely cannot overcome a poorly identified opportunity, it also true that simply identifying a superior opportunity will also not guarantee financing—efficient and effective exploitation is crucial. Stated differently, without a good pitch, resources will not likely be forthcoming.

Adding to the crucial nature of the new venture pitch is the simple fact that procuring equity financing is often more difficult for new firms (e.g., Berger & Udell, 2002; Ulvenblad, 2008). The startup context is distinct because adolescent and mature organizations have verifiable financial records, whereas nascent and newly started firms do not. Decisions made by equity investors regarding older firms can arguably be made in a fairly objective fashion—but, these objective decisions are largely based on historical performance. Lack of information, therefore, in this new venture context, requires potential financiers to infer certain unobservable characteristics of entrepreneurs and their new ventures from known and demonstrated features. As a result, investor decisions regarding new firms necessarily involve a substantial subjective component. Due to this inherent cognitive requirement, understanding the fundamentals of successfully pitching new ventures has become an important component of entrepreneurship research.

Finance theory provides some insight into this situation via the related concepts of adverse selection, information opacity, and moral hazard. Adverse selection describes a condition whereby the new firm will likely face a lack of legitimacy. In a market where buyers and investors cannot accurately gauge the quality of the product they are considering, the marketplace will likely offer poor quality products (Akerlof, 1970). Since most financiers are very aware of this, a high-quality firm with little history and proof of desirability is unlikely to be selected by financiers. While adverse selection addresses the presumed quality of a given startup, moral hazard describes a different financier-related concern. Moral hazard is an agency problem that speaks to the possibility that an entrepreneur in a given firm could engage in behavior that is not in the best interests of the financier, and that financier would have a difficult time discerning it (Chaganti, De Carolis, & Deeds, 1995). This is the case because most new firms and their offerings are opaque—meaning that they do not necessarily engage in full disclosure and may misrepresent facts (Rutherford, Buller, & Stebbins, 2009). This condition, resulting in lack of clarity and understanding on the part of the potential financier, facilitates and compounds the adverse selection problem most new venture leaders face.

Accordingly, to overcome this compounded problem, entrepreneurs must direct substantial amounts of energy and attention to the pitching of their ideas. Via the process of narrative sensemaking (e.g., O’Connor, 2002), entrepreneurs craft understandable,
believable, and intriguing narratives about the opportunities their firms offer in order to overcome the uncertainty, information opacity, and risk associated with the investment decision-making process (Aldrich & Zimmer, 1986; Uzzi, 1996). Relaying narratives is considered to be an effective legitimization tactic because narratives are rich, subjective, and not subject to external validation (Anderson, 2005; Delmar & Shane, 2004; O’Connor). These components make the narrative the ideal tool for startup or nascent entrepreneur.

In many ways, the narrative is the most important tool that entrepreneurs have to attract business partners. These behaviors are thought to determine significantly whether organizations are granted identities and rights to existence (Lounsbury & Glynn, 2001). Therefore, the quality of the pitch goes a long way in determining funding decisions by financiers such as angel investors and venture capitalists, and the eventual success of the venture (Chen, Yao, & Kotha, 2009).

**Narrative Sensemaking in a Pitch Context**

A business is talked into existence (Weick, Sutcliffe, & Obstfeld, 2005). Extant literature highlights how communication, defined as “information exchange” (Bird & Schjoedt, 2009, p. 342) can enable entrepreneurs to achieve their goals. Entrepreneurs, through communicating, provide order and familiarity to previously unordered things in a way that illuminates a value proposition, and encourages stakeholders to bestow resources upon their firm. The business does not precede the narrative, but vice versa. Throughout history, the use of symbolism and narratives as mechanisms for norm setting and culture creation is widely documented, particularly in the organizational creation stage (Golant & Sillince, 2007; Holt & Macpherson, 2010; Wry, Lounsbury, & Glynn, 2011; Zott & Huy, 2007). In the past research, the process of entrepreneurs seeking support from key stakeholders has been termed “cultural entrepreneurship” in that entrepreneurs use narratives to share an identity of their business, illustrate legitimacy, and acquire resources (Lounsbury & Glynn, 2001).

From a theoretical perspective, this process of entrepreneurs communicating information about their ventures, specifically via a business pitch, is rooted in the literature of narrative sensemaking (see O’Connor, 2002; Weick, 1979). Within this context, narrative sensemaking is defined as “…an entrepreneur’s ability to locate and adjust a taken position relative to distinct but interconnected plot-lines in which the communicator and relevant organization figure as primary, secondary, and minor characters” (O’Connor, p. 37). Put simply, via the process of narrative sensemaking, entrepreneurs create and then relate a story in which the focal characters are linked in action and goal. This story, then, frames the context of the entrepreneur–investor dyadic interaction. In this way, narrative sensemaking is more than storytelling. Whereas storytelling (i.e., the narrative) addresses the “what” of the pitch, sensemaking describes the “how.” It is more process oriented, consensual, and subtle than simple storytelling.

In the pitch context, sensemaking describes a process whereby individuals (financiers) are attempting to apply order, and familiarity, to “an ongoing unknowable, unpredictable streaming experience” (Weick et al., 2005, p. 410). Ostensibly, the entrepreneur has already made sense of the venture’s value proposition, and is attempting to guide financiers (i.e., sense giving) so that they may also make sense of the venture through use of a narrative. To fully engage and enlighten, though, a pitcher must extend sensemaking to include enactment. Enactment, or joint social construction (Downing, 2005), describes a process whereby the entrepreneur enlists the help of the stakeholders to create a future for the organization (Mason & Harrison, 2001), by acting as if the venture already existed (Gartner, Bird, & Starr, 1992).
Effectively enlisting the support of relevant stakeholders is done via communication processes that are theatrical in nature (e.g., Anderson, 2005; Downing, 2005). Indeed, this process may best be understood in terms of a play, or performance, particularly in light of the unique sample used in this research. In this “play,” the entrepreneur is the actor. The financiers represent the audience. The situation is the stage. Most often, the script is partially prepared (i.e., the business pitch) and partially improvised through financier participation. During the pitch, the entrepreneur must guide the audience in making sense of the venture. The televised context studied here (i.e., “Shark Tank,” “Dragons Den”) offers a unique situation where one is able to view the entire process.2

The entrepreneur’s ability to enact this “play” effectively is likely an indicator of eventual venture success; and, there is a good reason for this. Enactment is creation, and creation is the genesis of entrepreneurship (Gartner, 1988). Financiers often perceive entrepreneurs who cannot enact their plans effectively as unable to create viable ventures (Anderson, 2005; Mason & Harrison, 2001). These key stakeholders understand new ventures are boundary spanning activities that do not arise in a vacuum. New ventures are started and grown only through exchange between stakeholders—financiers, key customers, and the entrepreneurs representing the new ventures. So, though the pitch may seem an arbitrary and overly subjective method for evaluating future ventures, it may be the best proxy and predictor of success available.

In sum, a pitch is a narrative. And, the best narratives draw in the audience to create a familiar reality that otherwise does not exist. To the degree that a narrative can do this, it will be rewarded, just as the best novelists and screenwriters are generously rewarded (Anderson & Warren, 2011). Via the process of narrative sensemaking, entrepreneurs can craft and tell a story that, if properly enacted, can engage financiers in such a way that serves to (1) justify the existence of a company, (2) convince others to devote funds and other crucial resources to the company, and (3) build the tangible and intangible worth of the company (O’Connor, 2002, p. 36).

The effectiveness of the pitch, however, can only be fully realized by entrepreneurs who are prepared. And, what specific characteristic a pitch (and pitcher) must exhibit to entice investors sufficiently to provide resources is an area that remains relatively unexplored. It is our theory-based submission that, before entrepreneurs can attain financial resources, these financiers must bestow legitimacy upon them. Thus, whatever the particulars to pitching entail, they must result in the granting of legitimacy. Accordingly, we believe that preparedness behaviors are critically important in the pitching process. We build on, and extend, the current literature by proposing a model in which the relationship between preparedness behaviors and the outcome of funding decisions is mediated by cognitive legitimacy (see Figure 1).

Preparedness in the Business Pitch

Preparedness has been described as one of two dimensions of the higher order construct “entrepreneurial passion.” Yet, whereas the other dimension of entrepreneurial passion, “affective passion,” relates to an entrepreneur’s intense emotional state of being, preparedness is reflective of the behaviors that demonstrate understanding and thoroughness on the part of the entrepreneur (Cardon, Sudek, & Mitteness, 2009; Chen et al., 2009). In contrast to affective passion, perceived as the demonstration of emotion, enthusiasm, and energy, the manifestation of preparedness is often a well-delivered script, with

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2. We thank one anonymous reviewer for insights here.
appropriate and interesting content. Furthermore, preparedness represents a demonstration of the “immense complexity of accumulated learning that individuals bring to the new venture creation process” (Cope, 2005, p. 378). That is, preparedness can be thought of as a state of being—a condition of readiness. Given that many questions are likely to be posed during the business pitch process, astute and informed answers will also signal to an investor that the entrepreneur invested a significant amount of time, energy, and money in the new venture and is ready to succeed if vested.

The recent identification and measurement of the “preparedness” construct offers what we feel is a potentially powerful behavioral component of an effective business pitch. Importantly, in Chen et al. (2009), preparedness was identified as a cognitively based construct. Building on this work, as well as the contentions of Vallerand et al. (2003) that recognize the importance of the affective, cognitive, and behavioral dimensions of passion, we contend that perceptions of preparedness result primarily from observable entrepreneurial behavior.3 This contention is similar to the idea that the entrepreneurial behavior of writing a business plan may foretell a well-organized business. That is, consistent with a learning process view of entrepreneurship (e.g., Cope, 2005), the process of writing the business plan may foster insights and knowledge beneficial to the process of entrepreneurship (Bird & Schjoedt, 2009). Accordingly, though extant research has examined the direct relation between preparedness and venture funding, we seek to examine this construct more closely by investigating the theoretically based mediating mechanism of cognitive legitimacy. In this section, we review the literature related to preparedness, and in the following section, we examine the construct of legitimacy.

Chen et al. (2009), across two studies, developed an instrument to assess the relative level of passion of a given entrepreneur. In developing this instrument, they encountered two factors—affective (i.e., passion) and cognitive (i.e., preparedness). For study 1, they developed the scale to establish the face, convergent, and predictive validity of the proposed scale and then experimentally manipulated passion (i.e., high, low) and business plan quality (i.e., high quality, medium quality). Overall, the validation work for the scale, using undergraduate, MBA, and doctoral students as participants, produced an adequate way to assess entrepreneurial passion and preparedness. This work enabled the assessment of a laboratory experiment, using MBA and Executive MBA students as participants, where results indicated that preparedness had a significant effect on funding decisions, while the effect of affective passion was not significant. Furthermore, this experiment showed that the verbal content of the video presentation participants viewed and the executive summary of the business plan positively predicted investors’ perceptions of the presenter’s preparedness. This, in turn, positively predicted funding decisions.

In study 2, a sample of 55 investors evaluated 31 business plans and subsequent presentations. Using the scale developed in study 1, these investors then responded to items meant to measure an entrepreneur’s affective passion and preparedness. These scores were then used to predict the investors’ decision of whether or not to invest. Preparedness displayed by entrepreneurs emerged as a significant predictor of investment decisions, explaining roughly 24% of the variance. Interestingly, affective passion was not found to be a significant predictor. While affective passion has been assumed to positively impact desired outcomes, in those data, that seems not to be the case. These data, from studies 1 and 2, not only highlight the importance of preparedness, relative to affective passion, but they also illustrate similar results using various samples (i.e., students as well as investors).

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3. See the Method section for the list of items in the preparedness construct tapping entrepreneurs’ behavior.
Related to Chen et al. (2009), Cardon et al. (2009) conducted a study which assessed angel investors’ reactions to displayed affective passion in business pitches. In their study, they looked at affective passion, preparedness, and commitment displayed in the pitching process and then assessed whether or not the angels invested in that particular business. Pitches by 60 entrepreneurs were videotaped, viewed, and then coded by the researchers on the various passion dimensions (i.e., affective passion, preparedness, and commitment). They were then able to observe objectively the decisions made by 53 angels. Their results were similar to Chen et al. in that only preparedness predicted funding.

The empirical research is new and developing, however, and implications should be drawn carefully, as conflicting relations may arise (e.g., Sudek, Mitteness, & Cardon, 2010); overall, though, the initial results are suggestive of a positive relation between enacting preparedness behavior and positive outcomes. Accordingly, we present our first hypothesis.

**Hypothesis 1:** In a new venture pitch, entrepreneurs’ preparedness behaviors will have a positive effect on amount of funding received from potential investors.

However, as noted above, it is our theory-based submission that the nature of the relation between preparedness and positive outcomes is behavioral—specifically, we contend that the relation between enacted preparedness behavior and resource granting will work through the mediating mechanism of cognitive legitimacy. Accordingly, we review and discuss cognitive legitimacy in the following section.

**Cognitive Legitimacy and the Business Pitch**

Broadly defined, legitimacy is “...a social judgment of acceptance, appropriateness, and desirability, [that] enables organizations to access other resources needed to survive and grow” (Zimmerman & Zeitz, 2002, p. 41). While that definition clearly takes the new firm into account, much of the work on the topic has been done in the institutional theory realm and has therefore taken place in the established and aged firm context (e.g., Deephouse, 1996; Suchman, 1995). Legitimacy is often discussed as an outcome of cultural support that can protect an existing firm from the external environment (Meyer & Rowan, 1977). As a result, in much of this extant literature legitimacy is viewed as a way to overcome crises and negative press that may impact the organization (Child, 1972; Pfeffer & Salancik, 1978).

Legitimacy in the context of the new firm has a different connotation than it does in the context of the established organization. This variation may be a result of the heightened level of importance legitimacy has attained with regard to obtaining initial key resources. Unlike older and larger firms, most new firms possess very little legitimacy. For an established organization, increasing incremental levels of legitimacy is far less difficult than attaining the initial base at the beginning of an organization’s life cycle (Rutherford & Buller, 2007). As noted, this leads to an important contention seldom expressed in the literature: for many new ventures, legitimacy, not resource attainment, is the key outcome (Delmar & Shane, 2004). This is the case because, at this stage, the latent notion of legitimacy is a precursor to tangible (e.g., financing) and intangible (e.g., reputation) resources. As a result, an entrepreneur’s pitch should focus on establishing a legitimacy base. In the present research, we propose that entrepreneurs’ preparedness behavior can facilitate perceptions of legitimacy, specifically cognitive legitimacy.
Several typologies of legitimacy have been put forth in the literature (e.g., Hunt & Aldrich, 1996; Suchman, 1995), and the preponderance of this literature suggests three types of legitimacy exist: regulative, normative, and cognitive. Regulative describes legitimacy attained from maintaining proper behavior according to laws and rules set forth by governments and industries. Normative legitimacy is attained by complying with “softer” requirements set forth by key stakeholders in society (e.g., performance measures, organizational structure considerations, adequate strategic planning). Finally, cognitive legitimacy describes an even more tacit form of legitimacy, in which stakeholders make legitimacy judgments about an organization passively and not based on active evaluation. “From the cognitive perspective of legitimacy, organizations are legitimate when they are understandable (i.e., there is greater awareness and therefore less uncertainty involved with the organization) rather than considering when they are desirable” (Shepherd & Zacharakis, 2003, p. 151).

A key tenet of legitimacy is that it is, by definition, a stakeholder driven process. Thus, a new venture cannot take legitimacy. The new venture must instead be granted legitimacy by influential stakeholders (e.g., financiers, employees, suppliers, consumers). These stakeholders, either analytically or tacitly, decide that a firm has the necessary characteristics to interest them. For most stakeholders, this means having a feeling of relative permanence from an organization—a feeling that it is not teetering on the edge of extinction (Aldrich & Fiol, 1994). Again, for these entrepreneurs, the pitch is the primary tool at their disposal to influence this sentiment.

Building on this research, and considering the context of our study, we direct our attention to one form of legitimacy. We focus on cognitive legitimacy because it has been found to be especially important for new ventures (Choi & Shepherd, 2005). Suchman (1995, p. 583) described this type of legitimacy as “the most subtle and powerful” of the dimensions of legitimacy. Notably, when a venture achieves a heightened level of cognitive legitimacy, that venture is said to be taken for granted. When a stakeholder does not need to actively think about (i.e., takes for granted) a venture’s legitimacy, that venture is legitimate. Since new firms’ lack of history generally raises red flags, being taken for granted is elusive for them.

How, specifically, can a pitch serve to generate legitimacy via narrative sensemaking? Business pitches serve to establish, and then resolve, a paradox. On one hand, the venture must be unique in product or service offering. The entrepreneur must communicate to financiers why the new venture adds value. In discussing this added value, risk is reduced because the venture’s offerings are perceived as unique and therefore likely to generate competitive advantage. On the other hand, it must demonstrate that it will deliver this distinctive product or service in a reliable and credible way. In other words, the manner in which these unique offerings add value must be appropriate (Lounsbury & Glynn, 2001). Communicating distinctiveness accomplishes the goal of establishing the existence of a sustainable competitive advantage, or, at a minimum, a core competency (Whetten, 2000; Whetten & Godfrey, 1998). Establishing this distinctiveness is particularly important when pitching to equity financiers. Establishing appropriateness demonstrates that the new venture fits nicely within established societal and industry values, beliefs, and norms (Suchman, 1995). Other than the pitch, the new venture entrepreneur has few tools with which to signal this congruence. And, it is from establishing congruence with these established values, beliefs, and norms that legitimacy flows. Accordingly, we present our second hypothesis.

**Hypothesis 2:** In a new venture pitch, perceptions of cognitive legitimacy will have a positive effect on amount of funding received from potential investors.
The Mediating Mechanism of Cognitive Legitimacy

Effective entrepreneurs, in the business pitch, will focus directly upon enhancing the legitimacy of their firms in the minds of investors (Delmar & Shane, 2004). Entrepreneurs may see myriad organizational attributes as clear and distinguishable signals of legitimacy. However, these entrepreneurs will not be granted legitimacy by stakeholders unless stakeholders perceive their new venture assets and ideas as legitimate (e.g., Aldrich & Martinez, 2001; Zimmerman & Zeitz, 2002). Positively impacting the stakeholders’ appraisal of the firm can be effectively accomplished via the pitch, because pitches aim to “cue plausibility and build confidence that the enterprise can succeed” (Lounsbury & Glynn, 2001, p. 551).

By displaying preparedness behaviors in the pitch, entrepreneurs can positively affect the chances of attaining cognitive legitimacy. As mentioned, institutional theorists hold that cognitive legitimacy will be bestowed upon entrepreneurs only when stakeholders take the entrepreneur and the new venture for granted (Hannan & Freeman, 1989). Preparedness behaviors serve to allay the concerns, and remove “red flags” that erode taken-for-grantedness. By displaying these behaviors, entrepreneurs are utilizing the narrative to help financiers make sense of the venture quickly and easily. The more time and effort it takes for financiers to make sense of the business, the less likely that the entrepreneur will be deemed legitimate. It is our contention that by perceiving these preparedness behaviors in the narrative, financiers will more quickly and easily make sense of the venture.

The literature on the topic supports this contention. For example, nascent ventures whose founders engaged in activities meant to positively affect stakeholder perceptions increase formation and survival chances (Delmar & Shane, 2004; Tornikoski & Newbert, 2007). Drawing on the theoretical background of the present research, we assert that preparedness behaviors are one behavioral set that can influence the perception of new ventures’ cognitive legitimacy. Accordingly, building on the extant literature, we offer our final two hypotheses and propose that cognitive legitimacy mediates the relation between preparedness and the outcome of amount of funding. Specifically, we propose that preparedness will lead to increased levels of cognitive legitimacy; in turn, this perceived legitimacy will lead to a greater likelihood of receiving greater quantities of funding from equity investors.

Hypothesis 3: In a new venture pitch, entrepreneurs’ preparedness behaviors will have a positive effect on perceptions of cognitive legitimacy.

Hypothesis 4: Cognitive legitimacy will mediate the relation between preparedness and the outcome of amount of funding.

Method

Development of a Cognitive Legitimacy Measure

We developed and tested a measure for the cognitive legitimacy construct. We first generated five items that we felt reflect the cognitive legitimacy construct by reviewing the theory-based works of legitimacy researchers. For this development we focused on those legitimacy researchers who specifically address the new firm (e.g., Aldrich & Martinez, 2001; Shepherd & Zacharakis, 2003; Zimmerman & Zeitz, 2002). The five items first generated included: “I envision this business receiving high-profile endorsements in the future”; “I envision this business receiving favorable press coverage in the future”;...
Because of the founder’s experience, this business has a founder who benefits the organization”; “I envision this business having a top management team who will benefit the organization”; and “I envision this business having the resources to be successful in its industry.”

**Exploratory Factor Analysis #1.** After the item generation, we constructed a questionnaire to test the construct validity of these five items. Participants responded using a 1 (strongly disagree) to 5 (strongly agree) Likert scale format. Respondents who volunteered were instructed to watch a 3-minute video recording of a grocery store grand opening in the Northeastern region of the United States (Glickburg, 2010). The respondents were subsequently asked to provide their opinions about the business by answering the short survey we constructed. A total of 116 junior or senior-standing students enrolled in one of five managerial courses offered during the 2010 summer term at a medium-sized private university in the Midwestern region of the United States completed the survey. Approximately 61% of the respondents were male.

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 two-factor model was declared and estimated in SPSS Modeler Professional, Version 13.0. Given the sample data, all 5 items estimated loaded well, with no issues related to low factor loadings (<.50), high cross loadings (> .40), or low communalities (<.30) existing. The estimated factor solution accounted for approximately 57% of the total variance in the data and exhibited a KMO measure of sampling adequacy of .75. All communalities ranged from .32 to .55. Table 1 illustrates the items’ factor loadings, with significant loadings in italics. Table 2 is the complete list of the items resulting from this EFA.

**Confirmatory Factor Analysis.** Shortly after examining the simplified scale through the use of the EFA technique, we collected additional data to further test the construct validity of the model. We instructed a sample of respondents to watch the same video recording of

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Eigenvalue 2.84
Variance explained 56.9%

n = 116.
a grocery store grand opening in the Northeastern region of the United States that was used in the previous round of data collection. Participants responded using a 1 (strongly disagree) to 5 (strongly agree) Likert scale format. One hundred six undergraduate business students enrolled in five separate 2010 summer-term business courses at a private university in the Midwestern region of the United States completed the survey. No students completed the survey twice. Of these college-aged students, approximately 70% of the respondents were male.

After data collection, a 5-item confirmatory factor analysis (CFA) model that declared the use of one latent variable related to cognitive legitimacy was estimated using LISREL 8.80 (Jöreskog & Sörbom, 2001). Inspection of the model results indicated the model was not optimal ($\chi^2 = 40.56$, df = 5, $p = .000$, GFI = .87; AGFI = .60; CFI = .86; NNFI = .72; standardized RMR = .09; RMSEA = .26). Squared multiple correlations (SMCs) ranged from .37 to .80. Two items related to cognitive legitimacy did not sufficiently explain a significant amount of variance in the underlying latent variables they represented. Therefore, given the data, we were unable to confirm these 5 items reliably and parsimoniously measure the cognitive legitimacy construct. Accordingly, we proceeded to examine these data using an additional EFA.

**Exploratory Factor Analysis #2.** The two underperforming items were deleted, and an additional EFA was conducted using the data from the second sample (i.e., 106 respondents). We had to rely on EFA because of the inability to compute a 3-item CFA model in LISREL 8.80 due to model saturation and the lack of degrees of freedom. We computed an EFA utilizing principal axis factoring and oblimin rotation, with the scree test criterion used to confirm the items relate to just one factor. A 2-factor model was again declared and estimated in SPSS Modeler Professional, Version 13.0. Given this sample data, all 3 items estimated were deemed to have loaded very well, with no issues related to low factor loadings ($<.50$), high cross loadings ($>.40$), or low communalities ($<.30$) existing. The estimated factor solution accounted for approximately 72.7% of the total variance in the data and exhibited a KMO measure of sampling adequacy of .70. All communalities ranged from .35 to .51. Table 3 illustrates the items factor loadings, with significant loadings in italics. Table 4 is the complete list of the items resulting from this EFA and used in the empirical analysis related to hypothesis testing.
Sample and External Validity

Data from the research in our main study, described below, are based on coding from two sources. First, we collected data from the 64 business pitches presented by the entrepreneurs featured in the 14 episodes of season 1 of the television show “Shark Tank,” which aired in 2009. “Shark Tank” features a panel of five investors who view the pitches of entrepreneurs seeking capital. After viewing the business pitch, the investors (i.e., the Sharks) decide to invest, or not, in the entrepreneurs’ businesses. Our second data source, similarly, came from the 248 pitches presented by the entrepreneurs in the 84 episodes of seasons 1 through 8 of the British television show “Dragons Den.” “Dragons Den” is structured and formatted similarly to “Shark Tank,” except that in this case the investors are referred to as “Dragons” rather than “Sharks.”

The use of coding from media sources is a well-established methodological technique. For instance, research in other domains, such as the medical field, has long employed coding techniques such as this (Diem, Lantos, & Tulsky, 1996), and used television episodes to teach medical techniques (Østbye, Miller, & Keller, 1997). These studies, for
example, relied on data coded from episodes of the television show “ER,” in which actors portray medical personnel and patients at a fictional Chicago hospital.

This method is just now gaining traction within the domain of entrepreneurship. One main concern related to the data collection method is external validity (i.e., the accuracy of the portrayal). One recent study (Maxwell et al., 2011) examined the decision making of investors on the television show “Dragons Den.” Maxwell et al. 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” (for a review, see Maxwell et al., pp. 218–219).

Our confidence in our approach was bolstered knowing Maxwell et al. (2011) had already coded data from “Dragons Den.” To further increase our confidence, we contacted the producers of the show “Shark Tank” and entrepreneurs featured on the show, to confirm the accuracy of the television content. Through written correspondence with Barbara Corcoran, one of the show’s featured investors, we verified that the show is not scripted in any way, and the potential investors are in no way primed or ask to make investment choices for the purpose of making the television show more exciting and suspenseful. Accordingly, based on extant theory, prior research, and our own investigations, we have confidence that the interactions displayed on the shows “Shark Tank” and “Dragons Den” provide the present context, and results, with an appropriate level of external validity.

Coding Procedure

Building on recent work using data collection through coding of television show episodes (i.e., Maxwell et al., 2011) and other videotaped presentations (e.g., Baron & Brush, 1999; Hoehn-Weiss, Brush, & Baron, 2004), we developed specific coding procedures. Coder training took place over the course of three academic semesters in which 13 junior level, or senior level, undergraduate students first enrolled in an introductory entrepreneurship class (Fall 2009, Spring 2010), then continued this research as a part of an independent study project for academic credit (Fall 2010). During the spring of 2010 and the fall of 2010, these 13 students were responsible for conducting in-depth reviews of the literature to determine what constructs, both theoretical and practical, would predict successful business pitches (i.e., positive funding decisions by investors). From this substantial literature base, these students worked closely with the faculty supervisor to develop and test a coding scheme based on the measures described below (i.e., preparedness, cognitive legitimacy).

To refine the coding scheme, we tested the process by examining the coding sheet while each independently viewing an episode of “Shark Tank” and “Dragons Den.” We then discussed the execution of the coding scheme to resolve any disparities in results. Five coders then proceeded to code all the business pitches in “Shark Tank,” and the remaining coders rated the eight seasons of “Dragons Den.” We merged the ratings provided by coders, and consistent with best practices in the literature and to establish scores for the correctness and reliability of the coding, calculated values for inter-rater reliability (ICC) for each variable we utilized in the study’s empirical analysis. Since all the averaged ICC consistency calculations resulted in values .70 or above, we deemed the ratings to be representative of what any particular sample of raters would have provided as ratings and proceeded with our analysis (Bliese, 2000; James, Demaree, & Wolf, 1984). Means, standard deviations, and intercorrelations for relevant variables are shown in Tables 5–7 and illustrate the results of the ICC calculations.
Measures

Preparedness. We assessed preparedness using the 5-item scale developed by Chen et al. (2009): “The presentation content had substance,” “The presentation was thoughtful, and in-depth,” “The presentation was coherent, and logical,” “The presenter(s) articulated the relationship between the business plan and the broader context,” and “The presenter(s) cited facts to support his/her arguments.” The trained coders responded to these items on a 7-point scale ranging from 1 (strongly disagree) to 7 (strongly agree). These items achieved an adequate reliability (α = .96).

Cognitive Legitimacy. We analyzed perceptions of cognitive legitimacy using our newly developed measure. The items used in the analysis included: “I envision this business

Table 5

Means, Standard Deviations, Reliabilities, and Intercorrelations

<table>
<thead>
<tr>
<th>Variable</th>
<th>M</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Entrepreneurial experience</td>
<td>5.18</td>
<td>1.05</td>
<td>.31**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Responsiveness to feedback</td>
<td>5.50</td>
<td>.67</td>
<td>.49**</td>
<td>.32**</td>
<td>(.96)</td>
<td></td>
</tr>
<tr>
<td>3. Preparedness</td>
<td>5.54</td>
<td>.78</td>
<td>.47**</td>
<td>.44**</td>
<td>.56**</td>
<td>(.86)</td>
</tr>
<tr>
<td>4. Cognitive legitimacy</td>
<td>3.82</td>
<td>.52</td>
<td>.28**</td>
<td>.01</td>
<td>.26**</td>
<td>.27**</td>
</tr>
<tr>
<td>5. Funding (U.S. dollars)</td>
<td>188,486</td>
<td>113,574</td>
<td>.28**</td>
<td>.01</td>
<td>.26**</td>
<td>.27**</td>
</tr>
</tbody>
</table>

** p < .01
n = 113.
Note: Cronbach’s alpha reliabilities are shown in parentheses.

Table 6

Inter-rater Reliabilities (ICC) and Inter-rater Agreements (Rwg) for “Shark Tank” Data (Raters 1 through 5)

<table>
<thead>
<tr>
<th></th>
<th>Mean square</th>
<th>F</th>
<th>Sig.</th>
<th>ICC (C, 1)</th>
<th>ICC (C, k)</th>
<th>ICC (A, 1)</th>
<th>ICC (A, k)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparedness</td>
<td>9.91</td>
<td>31.14</td>
<td>0.00</td>
<td>0.53</td>
<td>0.85</td>
<td>0.50</td>
<td>0.83</td>
</tr>
<tr>
<td>Rwg = .98 (n = 240)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cognitive legitimacy</td>
<td>6.27</td>
<td>16.05</td>
<td>0.00</td>
<td>0.58</td>
<td>0.88</td>
<td>0.56</td>
<td>0.86</td>
</tr>
<tr>
<td>Rwg = .99 (n = 144)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ICC (C, 1) = Consistency, single measures.
ICC (C, k) = Consistency, average measures.
ICC (A, 1) = Absolute agreement, single measures.
ICC (A, k) = Absolute agreement, average measures.

Measures

Preparedness. We assessed preparedness using the 5-item scale developed by Chen et al. (2009): “The presentation content had substance,” “The presentation was thoughtful, and in-depth,” “The presentation was coherent, and logical,” “The presenter(s) articulated the relationship between the business plan and the broader context,” and “The presenter(s) cited facts to support his/her arguments.” The trained coders responded to these items on a 7-point scale ranging from 1 (strongly disagree) to 7 (strongly agree). These items achieved an adequate reliability (α = .96).

Cognitive Legitimacy. We analyzed perceptions of cognitive legitimacy using our newly developed measure. The items used in the analysis included: “I envision this business
receiving high-profile endorsements in the future,” “I envision this business receiving favorable press coverage in the future,” and “I envision this business having a top management team that will benefit the organization.” Coders responded to these items on a 7-point scale ranging from 1 (strongly disagree) to 7 (strongly agree). These items achieved an adequate reliability (α = .86).

**Amount of Funding.** Trained coders assessed amount of funding using the actual television episodes as well as archival data posted on the shows’ websites. Values from the British show “Dragons Den” were converted from the monetary value of euro or pound to U.S. dollars (M = $188,486, SD = $113,574) at the conversion rate of the month in which each episode aired. Prior to the analyses below, the natural log transformation of funding was completed. In our analysis, we included only the 113 pitches that received funding. We made this inclusion criterion for two reasons. First, we wanted to escape from the straightjacket of using a binary outcome (i.e., funded vs. not funded). Binary outcomes limit the generalizations we can draw from the data—simply, empirically, illustrating that entrepreneurs with more (less) preparedness do (do not) get funded is a modest contribution. Rather, we focused on amount of funding. Specifically, we chose this more fine-grained outcome as it can be more informative empirically. We aimed to show that entrepreneurs with greater preparedness behavior would foster greater cognitive legitimacy—and, in turn, we wanted to show that this positively predicts amount of funding received.

### Table 7

Inter-rater Reliabilities (ICC) and Inter-rater Agreements (Rwg) for “Dragons Den” Data

(Raters 1 through 4)

<table>
<thead>
<tr>
<th></th>
<th>Mean square</th>
<th>F</th>
<th>Sig.</th>
<th>ICC (C, 1)</th>
<th>ICC (C, k)</th>
<th>ICC (A, 1)</th>
<th>ICC (A, k)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparedness Between groups</td>
<td>4.10</td>
<td>91.68</td>
<td>0.00</td>
<td>0.41</td>
<td>0.74</td>
<td>0.36</td>
<td>0.70</td>
</tr>
<tr>
<td>Cognitive legitimacy Between groups</td>
<td>2.27</td>
<td>45.18</td>
<td>0.00</td>
<td>0.41</td>
<td>0.73</td>
<td>0.37</td>
<td>0.70</td>
</tr>
<tr>
<td>Rwg = .99 (n = 398)</td>
<td>98.43</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rwg = .99 (n = 240)</td>
<td>27.50</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Raters 5 through 8)

<table>
<thead>
<tr>
<th></th>
<th>Mean square</th>
<th>F</th>
<th>Sig.</th>
<th>ICC (C, 1)</th>
<th>ICC (C, k)</th>
<th>ICC (A, 1)</th>
<th>ICC (A, k)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparedness Between groups</td>
<td>6.67</td>
<td>7.83</td>
<td>0.00</td>
<td>0.44</td>
<td>0.76</td>
<td>0.44</td>
<td>0.76</td>
</tr>
<tr>
<td>Cognitive legitimacy Between groups</td>
<td>3.63</td>
<td>5.94</td>
<td>0.00</td>
<td>0.40</td>
<td>0.73</td>
<td>0.40</td>
<td>0.73</td>
</tr>
<tr>
<td>Rwg = .99 (n = 420)</td>
<td>12.60</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rwg = .99 (n = 222)</td>
<td>5.84</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ICC (C, 1) = Consistency, single measures.
ICC (C, k) = Consistency, average measures.
ICC (A, 1) = Absolute agreement, single measures.
ICC (A, k) = Absolute agreement, average measures.
Second, on a related note, we also only wanted to include funded pitches to avoid coders responding to the demand characteristics of the viewing process. Demand characteristics represent a cue that can make participants respond in a certain way, and thus, change the outcome of the research (e.g., a research assistant in a laboratory experiment expresses a preference and biases the results). A great deal of research focuses on the implications of demand characteristics (see, Laney et al., 2008; Navarick, 2007; Rosenthal & Rosnow, 2009). Demand characteristics are often concerns within experimental designs but have relevance in our case. Specifically, in pitches that were of poor quality (e.g., poor preparedness), the investors’ (i.e., Sharks’, Dragons’) body language, and verbal comments could unduly influence the coders’ ratings. Therefore, this bias is a methodological concern as the coded responses could be influenced. However, when we examine only pitches that were funded, the positive responses to pitches effectively holds (relatively) constant feedback from the investors—by using only pitches which were received favorably (i.e., funded), we alleviated this methodological concern.

Control Variables. We included “entrepreneurial experience” as well as the “responsiveness of the entrepreneur to feedback” as additional predictor variables in our model to assess the vulnerability of the findings to spuriousness and to rule out two plausible alternate explanations (Becker, 2005). On a 1 (strongly disagree) to 7 (strongly agree) scale, entrepreneurial experience was rated by coders in response to the following prompt: “The entrepreneur had experience in the industry in which the business operates.” Again, on a 1 (strongly disagree) to 7 (strongly agree) scale, responsiveness to feedback was rated by coders in response to the following prompt: “The entrepreneur was responsive to the feedback of the investors.” We included both entrepreneurial experience and responsiveness to feedback based on the premise that more experienced entrepreneurs, and entrepreneurs more responsive to feedback, may have a higher propensity to receive funding in the business pitch setting.

Results

Figure 1 depicts our empirical model and results. To examine our proposed mediated model, consistent with best practices in the literature (e.g., De Carolis, Litzky, & Eddleston, 2009; Preacher & Hayes, 2004), we closely followed recommendations for testing for the presence of mediators (Hayes, 2009; Preacher & Hayes, 2008). Baron and Kenny (1986) asserted that mediators must meet four criteria: (1) the predictor must significantly affect the outcome when the mediator is not included; (2) the mediator must significantly affect the outcome; (3) the predictor must significantly affect the mediator; and (4) the significant effect of the predictor on the outcome must decrease when the mediator is in the model. Full mediation is present if the variance accounted

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4. Thanks to one anonymous reviewer for insights here. Due to the high potential for conceptual (i.e., theory-based) and empirical (i.e., correlation of .56) overlap of the preparedness and cognitive legitimacy constructs we further explored this relation to establish the distinctiveness of preparedness relative to cognitive legitimacy. We computed an EFA utilizing principal axis factoring and oblimin rotation, with the scree test criterion used to confirm that the items loaded on two separate factors. Data supported a two factor solution with the estimated factor solution accounting for 79.21% of the total variance (Preparedness, factor 1, Eigenvalue = 5.44; Cognitive Legitimacy, factor 2, Eigenvalue = 1.35). Consistent with procedures described earlier for examining the factor structure of the cognitive legitimacy construct, we found no issues related to low factor loadings (<.50), high cross loadings (> .40), or low communalities (<.30).
for by the predictor is nonsignificant with the addition of the mediator; alternatively, partial mediation is when the influence of the independent variable decreases but remains significant.

In the first step of testing our mediated model, preparedness significantly predicted the amount of funding ($\beta = .16$, $t(109) = 1.94$, $p < .05$). The second step suggests that the independent variable (i.e., preparedness) significantly predicted the mediator, cognitive legitimacy ($\beta = .26$, $t(109) = 4.50$, $p < .001$). In step three of the mediation model, cognitive legitimacy predicted the amount of funding ($\beta = .27$, $t(108) = 1.98$, $p < .05$) with preparedness in the model. When the variance of cognitive legitimacy was partialled, however, the relation between preparedness and amount of funding did not remain significant ($\beta = .09$, $t(108) = 1.02$, $p = .31$). Thus, results support full mediation.

Consistent with best practices, bootstrap results ($n = 5,000$) computed using the INDIRECT macro (Preacher & Hayes, 2008) provided evidence of full mediation as well (bootstrap 95% confidence interval [.00; .18]). The estimated indirect effect calculated from the original sample was .068, and the mean of the indirect effect estimates calculated across all bootstrap samples was .071. This final model was robust despite the relations between the two covariates, entrepreneurial experience ($\beta = .12$, $t(108) = 2.05$, $p < .05$), and responsiveness to feedback ($\beta = -.22$, $t(108) = -2.46$, $p < .05$), being significantly related to amount of funding (See Figure 1).

**Discussion**

In this research, we sought to investigate antecedents of funding decisions made by financiers in response to entrepreneurs’ business pitches. In sum, we provide evidence to
support the contention that preparedness behaviors are positively related to perceived
cognitive legitimacy and, in turn, cognitive legitimacy predicts amount of funding. Spec-
cifically, results supported hypothesis 1, which proposed a positive relation between
preparedness behaviors and amount of funding received from financiers. These data,
accordingly, support a growing literature highlighting the important role of entrepreneur-
ial preparedness. This work bolsters work of such researchers as Chen et al. (2009) and
Cardon et al. (2009) who illustrate the role of preparedness in positively impacting
venture funding decisions.

We extended this research, though, by examining the theoretically derived mediating
mechanism through which preparedness impacts performance: cognitive legitimacy.
Results illustrated support for hypothesis 2, which proposed a positive relation between
cognitive legitimacy and amount of funding received. And, consistent with our theoretical
framework, results also confirmed hypothesis 3, which posited the positive relation
between preparedness and cognitive legitimacy. Finally, we found support for hypothesis
4, which proposed that cognitive legitimacy mediates the relation between preparedness
and amount of funding received. Though legitimacy in new firms has gained traction in the
entrepreneurship literature (e.g., Choi & Shepherd, 2005; Rutherford & Buller, 2007;
Tornikoski & Newbert, 2007), measurement of the construct has remained virtually
nonexistent. While exceptions exist (e.g., Choi & Shepherd), we submit here that our
measure related to cognitive legitimacy is more theoretically robust than other extant
measures. Additionally, our empirical justification that legitimacy does seem to precede
temporally the granting of resources, in the psychological chain of events, is a noteworthy
contribution. This follows the work of some more recent studies (Delmar & Shane, 2004;
Rutherford et al., 2009), indicating that new venture entrepreneurs should focus on
achieving legitimacy and not necessarily on directly acquiring financial resources.
Resources will be granted after legitimacy is achieved.

In addition to extending the literatures related to preparedness as well as legitimacy,
we also contribute to the work on narrative sensemaking. Though extant research has
examined how the written narratives entrepreneurs present affect initial public offering
valuations (Martens, Jennings, & Jennings, 2007), no research has empirically examined
narratives in the new, or nascent, venture context. Overall, the majority of work is
conceptual (e.g., O’Connor, 2002). Our work, thus, provides a novel context (i.e., new
and/or nascent ventures) and novel mode of communication (i.e., verbal “pitches”) in
which to study the venture capitalist–entrepreneur dyad. Work such as O’Connor, as well
as Anderson (2005), which built on the narrative sensemaking literature from Weick can
look to the present research as additional affirmation of the crucial role of narratives in
the domain of entrepreneurship. Additionally, within this communication framework, we
more accurately characterize the behavior of preparedness as communication behavior. In
doing so, we shed light on how, specifically, this behavior leads to positive funding
decisions made by investors.

Additionally, on a practical note, we offer a summary of the process of how oppor-
tunities are eventually funded in the new venture context. We advance our knowledge of
the relationship between pitching behaviors and decision making. This is an area that must
be closely examined if the dynamics of the venture funding process are to be more
fully understood (MacMillian, Kulow, & Khoilyian, 1989; Sapienza & Korsgaard, 1996).
Interest in investigating how the execution of the pitch by the entrepreneur may lead to the
forging of the financial bond between the many types of investors and the entrepreneur has
been growing (e.g., Baron & Brush, 1999; Baum & Locke, 2004; Chen et al., 2009).
However, the lack of empirical research in this area is surprising, given the importance of
the pitch to entrepreneurship researchers (e.g., Ireland & Hitt, 1997), as well as practicing
entrepreneurs and their advocates (e.g., Kawasaki, 2004, 2008). We build on this limited literature (e.g., Baron & Markman, 2000; Elsbach, 2003; Lounsbury & Glynn, 2001), and the present research adds credence to the growing sentiment that shows how entrepreneurs’ business pitches (i.e., narrative stories) build rapport with key stakeholders.

For instance, in order to pitch effectively to potential investors, entrepreneurs must address multiple key questions such as: “What is the customers’ pain?” “How does the product/service alleviate that pain?” “Is the solution affordable?” “Can the management team execute effectively and generate sufficient cash flow?” “What is the secret sauce?” (Kawasaki, 2004, 2008). Based on the current findings, entrepreneurs who are prepared and who tell a cohesive narrative regarding their business may be able to address these questions more effectively than less prepared entrepreneurs. Accordingly, we extend the efforts of those entrepreneurship theorists and researchers who have in the past focused on the agency theory and transaction costs views of entrepreneur–investor relationships (Sapienza & Korsgaard, 1996; Steier & Greenwood, 1995). The present work, accordingly, provides theoretical advances in the literature as well as practical, actionable, advice to entrepreneurs seeking funding in a pitch-based setting.

Finally, one additional contribution of the present work is that we further refine an emerging methodological technique: coding data from media sources. A growing body of empirical research is based on coding of data from sources such as the media (e.g., newspapers, Anderson & Warren, 2011; television, Maxwell et al., 2011). Though work in other domains is prevalent (e.g., the medical field, Diem et al., 1996; Østbye et al., 1997), techniques such as these are just now gaining traction within the domain of entrepreneurship. We hope that the methods and results of the present work encourage future exploration of this type.

In sum, our primary contribution is the modeling of how entrepreneurs’ preparedness behavior affects funding decisions by investors. By highlighting the construct of cognitive legitimacy, and validating its measurement, we provide theoretical clarification—cognitive legitimacy is the mediating mechanism through which preparedness behavior influences funding decisions. This contribution to the literature provides a model by which researchers, entrepreneurs, and investors can clearly understand how funding decisions are made and, potentially, influenced.

Limitations and Future Directions for Research

Our unique sample, empirical model, and subsequent results provide a compelling case for the value-added nature of the present contribution. However, this study has notable limitations. First, the degree to which these results are generalizable is questionable. Although evidence exists to suggest that external validity is intact (e.g., Maxwell et al., 2011), perhaps, at some level, these entrepreneurs and their firms were screened to meet the needs of the producers, directors, and television audiences, and therefore may not truly represent the universe of entrepreneurs. Second, we were not able to collect data related to alternative types of legitimacy (e.g., normative, regulative) or the actual age and/or size of the firm. Age and size data were available for only a very limited number of pitches. Third, our data involved the coding of episodes by trained student research assistants—though the use of trained coders is an acceptable methodology (e.g., Maxwell et al., these relations would benefit from replication utilizing a different sample of investors. Fourth, our sample size limited the number of relations that we could

6. Thanks to the editorial team for insights here.
empirically test—therefore, many questions remain. Moving forward, for example, future research could examine the mediating role of other types of legitimacy. Investigating normative, regulatory, sociopolitical, and industry legitimacy in this context would benefit both researchers and practitioners alike. Additionally, along these lines, we did not examine differences across industries—industry affiliation can affect resource needs and funding requests. Future research is encouraged to explore differences across industries related to funding, preparedness, and legitimacy. Finally, we focused solely on the pitches that received funding in a televised setting. Within this setting, the average amount of funding sought (M = $117,307, SD = $84,665) relative to funding received (M = $188,486, SD = $113,574) exhibited a bivariate correlation of .82. Along these lines, to expand and replicate the present work, future research may find value and add to the literature to the extent that (1) comparisons between successful (i.e., funded) versus unsuccessful (i.e., not funded) pitches can be examined; (2) pitches in different contexts (e.g., in person, video, webcast) can be examined; and (3) alternative criteria for success (e.g., publicity, valuable learning, marketing) can be assessed.

We maintain this manuscript adds to the literature by virtue of building upon and extending the current base of theory with regard to the attainment of entrepreneurial resources. However, this literature is still in its infancy and many compelling lines of research are becoming apparent. In addition to the directions noted above, we see several other interesting lines of inquiry. We advocate further development of the legitimacy construct based on the recent works in the literature (e.g., Bitekline, 2011). Certainly, all 18 legitimacy types identified by Bitekline could, and should, be subjected to additional measurement development. However, we agree with those scholars (e.g., Choi & Shepherd, 2005) who feel strongly that the construct of cognitive legitimacy holds special promise for the field of entrepreneurship. We believe that we develop and employ a robust and reliable measure, but it should be subjected to additional empirical scrutiny. If an agreed upon measure of cognitive legitimacy is validated, many unanswered questions in the entrepreneurship domain might be answered by future research.

Conclusion

The importance of the acquisition of resources to enable entrepreneurs to found new ventures is undeniable. Unfortunately for nascent entrepreneurs, investment decisions related to their aspirations are usually plagued with uncertainty and information asymmetry concerns that hamper potential investors’ abilities to gauge the financial viabilities of proposed new ventures (Venkataraman, 1997). However, fortunately for those seeking financial backing, social factors, behaviors, and relationship elements are used in interactive trade-off exercises formulated by equity investors, combating the detrimental uncertainty linked to the investment process (MacMillan, Siegel, & Narasimha, 1985; Muzyka, Birley, & Leleux, 1996).

Accordingly, entrepreneurs seeking funding have the opportunity, via the business pitch, to enact behaviors that foster perceptions of preparedness and legitimacy. This legitimacy, in turn, can positively influence funding decisions. In the present research, we established that preparedness is positively related to perceptions of cognitive legitimacy. In turn, results illustrate that cognitive legitimacy mediates the relation between preparedness and amount of funding received. From both practical and theoretical viewpoints, the present work has the potential to benefit entrepreneurs as well as scholars. And, we hope
this research provides fertile grounds for future inquiry related to entrepreneurial behaviors that enhance the opportunities for new ventures to acquire crucial resources needed for firm survival.

REFERENCES


Jeffrey M. Pollack is an assistant professor in the Department of Management at University of Richmond.

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