Chapter 2

Entrepreneurial Rhetoric and Business Plan Funding

Thomas H. Allison
University of Oklahoma, USA

Aaron F. McKenny
University of Oklahoma, USA

Jeremy C. Short
University of Oklahoma, USA

ABSTRACT

How entrepreneurs disclose the blemishes of a new venture to investors may be an indicator of relative riskiness and thus may predict how much funding a venture receives. Drawing from venture funding research, the authors propose that hardship rhetoric will have a curvilinear relationship with investment received by a venture. This hypothesis is supported by an analysis of rhetoric reflecting hardship in the memoranda and business plans of 86 high-technology ventures. In addition, the authors find that concrete language in memoranda is positively related to the amount of capital raised. In sum, this study presents the first examination of how the language used in business plans and communications with potential investors influence venture fundraising.

INTRODUCTION

Entrepreneurial resource acquisition involves the processes used by entrepreneurs to gather resources to build and sustain nascent ventures (Katz & Gartner, 1988; Rumelt, 1987; Stevenson & Gumpert, 1985). New ventures suffer from liabilities of newness and a lack of legitimacy with stakeholders that may hamper their ability to secure needed resources relative to established organizations (e.g., Singh, Tucker, & House, 1986; Stinchcombe, 1965). Thus, strategies used to secure the commitment of resources could provide important knowledge with the potential to influence the success and survival of the organization.

How an individual communicates with others can influence how others view their intentions and actions, and ultimately persuade others to act on their behalf (e.g., Kipnis & Schmidt, 1985).
Emerging research in the management literature built on this premise draws from research in political discourse and draws parallels to the language of leadership (Bligh, Kohles, & Meindl, 2004). Relevant to many questions in entrepreneurship, such communications often convey content relevant at both individual and organizational levels of analysis (McKenny, Short, & Payne, 2013).

In an entrepreneurial setting, this suggests that the strategic use of language may be an effective mechanism through which entrepreneurs can convince resource providers to make resource commitments. For example, business plans are frequently used by entrepreneurs to convey the value of an opportunity to potential financial resource providers. Universities engage significant resources directing students in business plan competitions, and in related pedagogical efforts to help develop convincing documents. As such, these documents represent important symbols of entrepreneurial knowledge valued by a host of different stakeholders.

Despite the perceived value of business plans to both academic and practitioner audiences, little is known about how the language used by entrepreneurs in these narratives influences commitment of resources to the venture, creating a gap between what is known presently and what we would like to know about the role of the use of language in entrepreneurial resource acquisition.

To begin bridging this gap, this paper draws from research on communication and investor decision making to examine how the language used in entrepreneurial narratives influences the commitments made by resource providers. Specifically, we examine how hardship rhetoric communicating the level of risk and concreteness rhetoric indicating the tangibility of this risk influences the amount of funds raised by entrepreneurs. If strong linkages emerge between formal documents and resource acquisition while controlling for potentially confounding factors such as the stage of the venture, this may suggest that entrepreneurs could benefit from considering not only what they disclose in business plans, but also how they frame such knowledge. Consequently, our work helps to close the gap between ‘what we know’ and ‘what we need to know’ concerning strategies to effectively craft business plan narratives.

**RHETORICAL STRATEGY IN ENTREPRENEURIAL NARRATIVES**

Research has examined the nature of the communication between entrepreneurs and professional investors after investments have been committed to an entrepreneurial venture (Sapienza & Korsgaard, 1996; Shepherd & Zacharakis, 2001). Yet, communication research makes it clear that entrepreneur-investor interaction is also a significant ex-ante factor in determining whether a relationship and investment will be developed.

Communication research suggests that how information is presented affects how the receiver reacts to that information (e.g., Kühberger, 1998). One attribution made by the receiver, based on the way information is communicated, is the credibility and expertise of the communicator (Hovland, Janis, & Kelley, 1953; Hovland & Weiss, 1951; Lui & Standing, 1989). In the entrepreneurial context, communication can convey expertness by signaling experience, which helps entrepreneurs overcome the liability of newness and thereby acquire investment (Zott & Huy, 2007). This can be accomplished by avoiding the impression of naïveté in written communications such as the business plan (Franke, Gruber, Harhoff, & Henkel, 2006, 2008; Macmillan, Siegel, & Narasimha, 1985; Zacharakis & Meyer, 1998).

As a group, entrepreneurs tend to be overconfident (e.g., Busenitz & Barney, 1997; Forbes, 2005). However, experienced entrepreneurs are better able to recognize the risks associated with the venture, and are able to make more realistic appraisals of their venture (e.g., Ucbasaran, Westhead, Wright, & Flores, 2010). Thus, when entrepreneurs convey the risks associated with