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# Entrepreneurial Storytelling, Future Expectations, and the Paradox of Legitimacy

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**P**rior research highlights storytelling as a means for entrepreneurs to establish venture legitimacy and gain stakeholder support. We extend this line of research by examining the role that projective stories play in setting expectations and the dynamics that ensue. Such attention highlights a paradox—the very expectations that are set through projective stories to gain venture legitimacy can also serve as the source of future disappointments. Because of inherent uncertainties that projective stories mask, ventures will likely deviate from their early projections, thereby disappointing stakeholders. This, in turn, can result in a loss of legitimacy. Recognizing that entrepreneurship is an ongoing process, we examine the constraints and possibilities of maintaining or regaining legitimacy through revised storytelling. We conclude the paper with implications for research on entrepreneurial storytelling as an ongoing process.

*Keywords:* entrepreneurship; cultural; future expectations; legitimacy; sensemaking; projective narratives; paradox; institutional capital

*History:* Published online in *Articles in Advance*.

## Introduction

New ventures are often unable to attract the resources required for survival and growth as they lack legitimacy in the eyes of stakeholders (Aldrich and Fiol 1994, Lounsbury and Glynn 2001, Zimmerman and Zeitz 2002). Research has found that entrepreneurial storytelling plays a key role in addressing this problem (Lounsbury and Glynn 2001, Martens et al. 2007). This research also notes that stories galvanize the support of stakeholders by setting future expectations (Aldrich and Fiol 1994, Martens et al. 2007). However, researchers have not systematically examined how such expectations are set through projective stories, and the dynamics that unfold.

We do so in this paper by drawing on the “sociology of expectations” literature (Borup et al. 2006, Brown and Michael 2003, Brown et al. 2000). Scholars contributing to this literature define expectations in general as a “state of looking forward” (Borup et al. 2006, p. 286). We build on this literature to explicate two kinds of expectations—cognitive and pragmatic. Cognitive expectations represent an understanding of a venture’s future characteristics and its environments, including its markets, technologies, and competition. Pragmatic expectations represent future benefits that might accrue to a venture’s stakeholders such as return on investment for financiers, career prospects,

and stock options for employees, as well as valuable products for customers.

Establishing these expectations is not an easy task. In the entrepreneurship context, stakeholders may not comprehend the future, especially when it is projected to be significantly different from the past, thereby leading to a lack of cognitive legitimacy (Aldrich and Fiol 1994, Hargadon and Douglas 2001, Suchman 1995). Moreover, given the uncertainties involved, stakeholders may question the plausibility of a venture accomplishing its future goals, and, in turn, the value of supporting the venture. Such skepticism on the part of self-interested stakeholders represents a lack of pragmatic legitimacy (Suchman 1995, Wood 1991).

Contributing to an understanding of entrepreneurial storytelling, we explore how projective stories can help address the challenges of setting future expectations that are comprehensible and plausible. To preview our arguments, such projective stories set cognitive and pragmatic expectations by “plotting” (Polkinghorne 1988) different social and material elements into a compelling chronological account that invites stakeholders to imagine future venture possibilities (Bartel and Garud 2009, Lampel 2001).<sup>1</sup> They also set expectations by establishing intertextual linkages with other growth stories (Wry et al. 2011). These observations complement other streams

of entrepreneurship research that view opportunities as emerging from entrepreneurs' creative imagination (Chiles et al. 2007, Gartner 2007, Lachmann 1986).

Considering entrepreneurship as a dynamic process that goes beyond initial resource acquisition (McMullen and Dimov 2013, O'Connor 2002), a paradox becomes evident. Early stories, while presenting comprehensible and plausible futures, also set the stage for challenges that entrepreneurs will likely encounter in their efforts to meet the expectations that were set. This is because the successful enactment of projective stories is conditional upon the realization of several factors such as technologies, markets, and regulation. Given inherent uncertainties, there is always a possibility that some of the expectations set in early projective stories will remain unmet (Van de Ven et al. 1999). When a venture fails to meet these expectations, both cognitive and pragmatic legitimacy can be threatened or compromised.

Entrepreneurial stories that align ventures with broader developments generate another facet of the legitimacy paradox. Entrepreneurs set both cognitive and pragmatic expectations for their ventures by linking their stories with emerging growth stories (Borup et al. 2006, Granqvist and Laurila 2011, Wry et al. 2011). In doing so, however, ventures become vulnerable to collective industry-wide disappointments and shifts in broader expectations. Ventures confront these disappointments and changes in broader expectations as environmental legitimacy "jolts" (Meyer 1982). If left unaddressed, such legitimacy jolts can adversely influence continued stakeholder support (Ashforth and Gibbs 1990, Dowling and Pfeffer 1975, Suchman 1995).

Building on studies of entrepreneurial storytelling as an ongoing process (McMullen and Dimov 2013; O'Connor 2002, 2004), we examine the possibilities and challenges that entrepreneurs confront in their efforts to revise their stories to maintain or regain legitimacy. For instance, clumsy efforts by entrepreneurs to regain legitimacy through symbolic means (Zott and Huy 2007) can further lead to its depletion given the loss of credibility by entrepreneurs (Ashforth and Gibbs 1990). Moreover, recipients are unlikely to accept stories that directly contradict entrepreneurs' earlier claims (Mantere et al. 2012). Instead, the maintenance and rebuilding of legitimacy is likely to involve revised storytelling to replot and reconfigure a story's constitutive elements to set fresh expectations. Such revised storytelling, to the extent possible, is contingent on the pliability of prior commitments and ongoing negotiations with stakeholders, old and new (O'Connor 2002).

The rest of this paper is organized as follows. We begin by exploring how projections into the future can exacerbate legitimacy challenges that new ventures confront and how projective stories can help address these challenges. Next, we examine how and why ventures confront difficulties in meeting the expectations set in early projective stories and

the toll that setbacks can take on a venture's legitimacy. We then explore the challenges and possibilities of offering revised stories. In the discussion section, we explore new avenues that this theorization opens up for research.

## Entrepreneurial Stories and Venture Legitimacy

There is now widespread understanding about the lack of legitimacy that new ventures confront in the eyes of potential stakeholders (Aldrich and Fiol 1994, Lounsbury and Glynn 2001, Martens et al. 2007, Zimmerman and Zeitz 2002). A commonly used definition considers legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman 1995, p. 574). Lacking legitimacy, ventures are unable to attract the necessary resources from stakeholders such as venture capitalists, customers, and potential recruits (Martens et al. 2007, O'Connor 2004, Shepherd and Zacharakis 2003).

In their article, Aldrich and Fiol (1994) offered storytelling as a strategy to establish legitimacy for organizational forms and also explored the impact of such strategies on broader industry contexts. Lounsbury and Glynn (2001) subsequently shifted attention to independent ventures to explore the role that entrepreneurial storytelling plays in portraying existing stocks of resource capital (firm-specific assets and capabilities) and institutional capital (alignment with broader field-level expectations and categories) to potential stakeholders. Such a shift from organizational forms to specific ventures is associated with a more strategic conception of legitimacy (Suchman 1995), and a shift from a generalized perception of legitimacy by the public at large, to perceptions of a venture's legitimacy in the eyes of its existing and potential stakeholders. As Zimmerman and Zeitz (2002) noted, strategic action on the part of entrepreneurs to enhance the legitimacy of a venture in the eyes of its potential stakeholders is critical for mobilizing resources (for a review, see Überbacher 2014).

Aldrich and Fiol (1994, p. 652) also noted that entrepreneurial stories often focus on the future, but they did not explore the theoretical implications of this observation. Indeed, the literature on entrepreneurial storytelling undertheorizes the role that future expectations play. For instance, Lounsbury and Glynn (2001, p. 552) examined the resource capital that a company already possesses, noting that "entrepreneurial story content must consist of claims that emphasize a core, distinctive, and enduring set of attributes, capabilities, and resources that lend strategic distinctiveness and competitive advantage" (see also Navis and Glynn 2010, 2011).

A contribution of this paper is to explore the setting of future expectations by entrepreneurs to gain legitimacy for their ventures. That there is a lacuna in this regard is apparent in the observations offered by von Burg and Kenney (2000, p. 1152), who wrote, "The investment

decision and the building of the firm [new venture] are better understood as an attempt to construct an entity and space. The entrepreneurs recruit resources from the environment and unite them into a working entity. *They must convince investors that their vision of the future has the possibility of being actualized*” (emphasis added). By addressing this lacuna, we advance current understanding of venture legitimacy by building on literatures from the “sociology of expectations” and “storytelling/narratives” to theorize about the challenges and possibilities of setting future expectations.

### Future Expectations and Entrepreneurial Legitimacy

Recently, a literature has emerged around what is now labeled the *sociology of expectations* (Borup et al. 2006, Brown et al. 2000). For instance, Borup et al. (2006, p. 285) observed, “By definition, innovation in contemporary science and technology is an intensely future-oriented business with an emphasis on the creation of new opportunities and capabilities. Novel technologies and fundamental changes in scientific principle do not substantively pre-exist themselves, except and only in terms of the imaginings, expectations and visions that have shaped their potential.” Scholars contributing to this literature note that such expectations are not necessarily true or false. Instead, they are more or less “meaningful” to stakeholders (van Lente 2012, pp. 775–776) or more or less “robust” depending on their connections with relevant and credible actors, meaningful data, and ongoing developments (Sung and Hopkins 2006).

These observations also apply to entrepreneurship in general and technology-intensive ventures in particular. Entrepreneurship, similar to science- and technology-based initiatives, involves actors who pursue future goals despite and even because of the uncertainties involved (Brown et al. 2000, Chiles et al. 2007, Gartner 2007, Garud et al. 2014). In both cases, actors must buy into and commit to these future expectations to determine their plausibility (van Lente 2012).<sup>2</sup> And, in both cases, establishing legitimacy is of utmost importance (Aldrich and Fiol 1994, Geels and Verhees 2011, Lounsbury and Glynn 2001, van Lente 2012).

Scholars contributing to the sociology of expectations literature note that innovations are often based on technologies that have yet to emerge (Brown et al. 2000, van Lente 2012). Consequently, it is challenging to set cognitive expectations given that stakeholders may not find it easy to comprehend the future based on such technologies (Hargadon and Douglas 2001). The same is true of entrepreneurial settings where stakeholders may not easily comprehend entrepreneurs’ visions of the future as they are based on artifacts and evaluation routines that have yet to materialize (Garud and Rappa 1994, von Burg and Kenney 2000), industry and product categories that depart from the old (Rosa et al. 1999, Zuckerman 1999),

and customer preferences that have yet to emerge (Ansari and Garud 2009). The lack of comprehensibility of future states can compromise cognitive legitimacy (Aldrich and Fiol 1994).

A second form of expectations in the sociology of expectations literature has to do with future benefits from new technologies (Brown et al. 2000, van Lente 2000). Such pragmatic expectations are also important in the case of entrepreneurial ventures. These include future outcomes such as return on investment for financiers, career prospects and stock options for employees, and valuable products for customers. In turn, these are related to pragmatic legitimacy—i.e., a perception by stakeholders that they will benefit from their support of a venture (Suchman 1995, Wood 1991).

Setting such expectations is not an easy task. As John Seely Brown (the erstwhile chief scientist at Xerox PARC) noted, those involved in the entrepreneurial process operate in a “fog of reality” (Brown 1997). Consequently, engaging in literal communication to offer specific details about a future that has not yet emerged will not enhance comprehensibility (Lampel 2001). Moreover, appealing to substantive means–ends rationality is problematic (Goodnight and Green 2010, van Lente 2012, Zimmerman and Zeitz 2002), given the fundamental uncertainties involved (Knight 1921).

### The Role of Projective Narratives in Shaping Expectations and Legitimacy

How might expectations be set to establish venture legitimacy when images about the future are unclear and when fundamental uncertainty exists? In this section, we discuss the role projective stories play. These represent “the imaginative generation by actors of possible future trajectories of action” (Emirbayer and Mische 1998, p. 971), one where entrepreneurs “suggest various permutations of [an] idea’s manifestation” (Gartner 2007, p. 624). Besides constituting existing stocks of firms’ and institutional capital (Lounsbury and Glynn 2001), projective stories set expectations by resorting to “narrative rationality” based on their internal coherence and their resonance with audiences (Fisher 1987).<sup>3</sup> A story’s coherence is established by developing a plot, whereas its resonance is established through intertextual linkages with other stories in currency and with the broader discourses that are unfolding. We address each one of these in greater detail (see Table 1 for a summary). Our observations complement previous insights offered by organizational scholars on the use of stories in general (Barry and Elmes 1997, Bartel and Garud 2009) and by entrepreneurs in particular (Lounsbury and Glynn 2001, Martens et al. 2007, O’Connor 2002).

*Plotting the Future.* Several authors have noted that a “plot” is the means by which story events acquire meaning (Czarniawska 2004, Fisher 1987, Polkinghorne 1988).

**Table 1 Facets of Projective Stories Enabling the Setting of Cognitive and Pragmatic Legitimacy**

Facet	Cognitive legitimacy	Pragmatic legitimacy
Plotting the future	Facilitates comprehensibility by offering a coherent and vivid account of future possibilities.	Establishes plausibility by plotting an end state and the intermediary steps that will lead to this desired outcome.
Intertextual linkages	Facilitates comprehensibility by connecting with developments in technologies, markets, and regulation contained in broader growth stories that are familiar to stakeholders.	Establishes plausibility by connecting with widely accepted future expectations to justify venture-specific benefits.

Meaning emerges as events representing associations between social and material elements are strung together to provide a totalizing account (Polkinghorne 1988). In this regard, Simms (2002, p. 85) observed, “Meaning attaches to a story because it is going somewhere, and it is from the end-point of a story that the story and its meaning can be seen as a whole.” In other words, it is the projected ending that renders the beginning of a story and other intermediary events meaningful, and it is the overall plot that brings these events into one meaningful whole (Polkinghorne 1988).<sup>4</sup>

Early entrepreneurial stories also project an end state (such as liquidity events) and the intermediary steps involved, thereby generating comprehensibility. Stories are particularly valuable for conveying the future, as it is the story’s plot rather than its truth or falsity that gives it its power to persuade (Bruner 1986, Czarniawska 2004). Indeed, stories persuade not by placing a projected event as an instance of a general causal law but instead by relating it to a human project (Polkinghorne 1988). In particular, embedded in the entrepreneurial stories are the different roles that actors (will) play, a facet that helps enhance the plausibility of accomplishing the milestones set out in projective stories.

Entrepreneurial projects, in particular, often involve deviations from established social orders. Germane to this point, Czarniawska (2004, p. 9) observed that “narrative thrives on the contrast between the ordinary, what is ‘normal,’ usual and expected, and the ‘abnormal,’ unusual and unexpected.” She also argued that, to comprehend such deviations, stakeholders must have the possibility of making sense of the story from their own vantage points. This is certainly true of stories, as Ricoeur (1984) noted. Stories are open to social negotiation, a facet that renders them important for understanding breaches in social order (see also Bruner 1986).

*Intertextual Links.* Whereas a plot ties together venture milestones to provide a totalizing account, intertextual

links (Fairclough 1992) with other stories about future developments in technologies, industries, and markets (Berkhout 2006) is a way to enhance a story’s resonance and credibility with audiences. In the entrepreneurship literature, Gartner (2007, p. 614) noted, “Stories are told in the larger context of other stories and ideas: ‘larger voices.’ To listen [to]/read a story offers an opportunity to engage in how a story interrelates to other ‘larger voices’ that readers/listeners bring with them.” Indeed, such intertextual links allow ventures to benefit from membership in a social category (e.g., dot-com firms as “Internet start-ups”) (Goodnight and Green 2010). For instance, Martens et al. (2007) found statistical support for an increase in the likelihood of entrepreneurs securing stakeholder support when entrepreneurial narratives use salient terminology and ideas from public discourse (e.g., “dot-com”).

Scholars from the sociology of expectations literature found that intertextual links between stories authored by high-status actors such as scientists, government experts, and the media can generate a sense of inevitability for compelling visions of the future (van Lente 2000). For instance, by connecting with the notion of “technological progress” in various discourses, proponents of high-definition TV were able to create what van Lente (2000) labeled a “forceful future.” In a similar vein, Wry et al. (2011) offered the concept of field-level “growth stories” that project expectations of industry growth. Since they are associated with emerging technologies, products, or business models, these growth stories foster generic expectations about the future, which, in turn, shape stakeholders’ perceptions of individual ventures (Goodnight and Green 2010, Granqvist et al. 2013, Wry et al. 2011). In sum, the use of specific vocabularies (Loewenstein et al. 2012) such as words associated with the field of “nanotechnology” (Granqvist et al. 2013) can help set cognitive and pragmatic expectations.

Indergaard (2004) offered an example of the importance of such growth stories. Commenting on the emergence of dot-com firms in Manhattan in the 1990s, Indergaard observed, “When investors lack information, they may still invest if a collective mobilization provides them with a narrative that leads them to believe that the market is likely to rise—and that people like them can reap the rewards” (pp. 135-136; see also Goodnight and Green 2010). Similarly, Konrad et al. (2012) found that various discourses around fuel-cell-powered cars led to the formation of a widely held collective expectation that these cars would be introduced in the market by 2004. So dominant was this expectation that even actors with doubts had to build on it as a part of the stories they offered.

*Trade-offs and Tensions.* In sum, projective stories set expectations by plotting venture events and by establishing intertextual links with entrepreneurial stories that are in currency in the broader discourse. However, there are

tensions involved in the setting of cognitive and pragmatic expectations, and the associated legitimacies involved.<sup>5</sup> For instance, to project greater benefits in the future, entrepreneurs may have to constitute their ventures around more complex future end states that stakeholders have greater difficulty comprehending. In other words, efforts to set pragmatic expectations can end up compromising cognitive legitimacy. Conversely, efforts to set cognitive expectations by providing greater details about a future that has yet to emerge can instead result in enhancing the perception of uncertainty for stakeholders, as they are likely to ask more questions about the plausibility of accomplishing these projections (Lampel 2001). In other words, efforts to enhance cognitive expectations can end up undermining pragmatic legitimacy.

Research suggests that a way to address these tensions is to pitch an entrepreneurial story at an appropriate level of abstraction. Specifically, temporal construal theory has found that claims are likely to ring true when the specificity of the details offered in a story corresponds with the temporal frame (Liberian and Trope 1998, Trope and Liberman 2003). According to these studies, story elements that take place farther in the future appear more plausible when they are represented with less detail, whereas greater precision of temporally distant events tends to raise doubts. The more distant the events are, the more they are represented by “a few abstract features that convey the perceived essence of the events (high-level construals) rather than in terms of more concrete and incidental details of the events (low-level construals)” (Trope and Liberman 2003, p. 403). Moreover, Liberman and Trope (1998) showed that increasing temporal distance results in shifting individuals’ foci from the specific details about the realization of plans to an overall appreciation of potential outcomes.

One way to increase the level of abstraction is through the use of analogies and metaphors (Cornelissen and Clarke 2010). Analogies and metaphors allow stakeholders greater flexibility to interpret a story from their own vantage points (Pinch and Bijker 1987) and to imagine a future that has yet to emerge (Bartel and Garud 2003). Such envisioning on the part of stakeholders generates a

psychological-buy-in into the story (Bartel and Garud 2009), which triggers “commitment” rather than “critical evaluation” of premises (Lampel 2001).

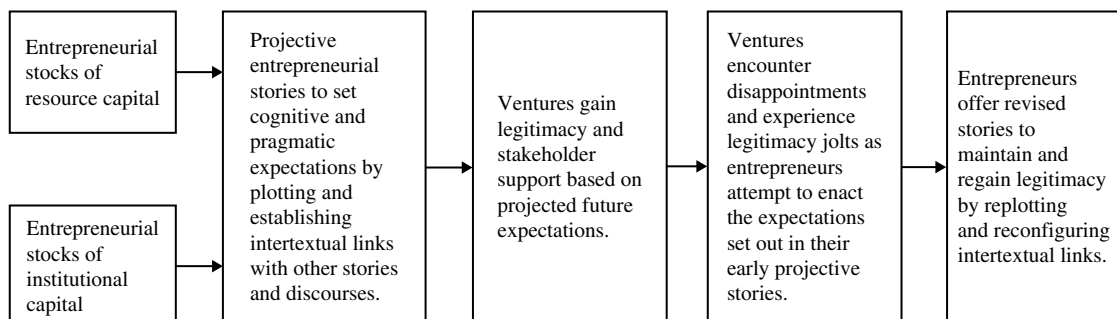
These observations resonate with Weick’s (1995) observation that it is only by trying out something that actors can make sense of equivocal phenomena. This is also an important point in the sociology of expectations literature, where Borup et al. (2006, p. 288) noted, “In many cases, however, checking such claims [about the performance of a technology] will involve the same activities as trying to build the technology. If we accept that anticipation is actually constitutive of value, then we logically cannot differentiate between our expectations of things (biotechnologies, stem cells, nanotechnologies, etc.) and what those things in fact are.”

*Summary.* These discussions on the role of expectations in establishing legitimacy through projective storytelling are summarized in Figure 1. The figure extends the one developed by Lounsbury and Glynn (2001, p. 547) in their article on entrepreneurial storytelling. Their figure, titled “Process model of cultural entrepreneurship,” depicts the role of stories in portraying a venture’s existing “resource” capital (i.e., firm-specific value-enhancing assets and capabilities) and “institutional” capital (i.e., industry legitimacy, compliance with norms and rules, and the availability of industry infrastructure). In the model developed by Lounsbury and Glynn, stories are the mechanism whereby entrepreneurs generate legitimacy for their ventures to secure resources, which culminates in wealth creation. Our extension of this figure weaves in the setting of expectations through projective stories. As we will discuss in the following sections, the figure also highlights legitimacy challenges and jolts that firms confront in fulfilling the expectations set, and the process of revising stories to maintain or regain legitimacy if threatened or lost.

## The Consequences of Projective Storytelling

So far, we have explored how venture legitimacy challenges are exacerbated when we take into account future expectations and how projective stories can address these

**Figure 1 Ongoing Storytelling to Set, Maintain, and Repair Expectations and Legitimacy**



Note. This figure is based on the one developed by Lounsbury and Glynn (2001, p. 547) in their article on entrepreneurial storytelling.

challenges. In this section, we explore the loss of legitimacy that occurs when expectations that are set in early stories are not met. Although it is always possible that early projective stories were simply too optimistic (Lowe and Ziedonis 2006), we want to make a more general case that most ventures are likely to encounter roadblocks as entrepreneurs attempt to implement the expectations that were set.

### Disappointments and Legitimacy Loss

Building on work from the sociology of expectations literature (Borup et al. 2006, van Lente 2012), we note that early expectations are not only hypothetical descriptions of a future state but also performative speech acts (Austin 1962). That is, these expectations are “wishful enactments of a desired future” (Borup et al. 2006, p. 286) that entail the “generation of hypotheses about how the world might be” (Gartner 2007, p. 624). These wishful enactments can only be realized if certain felicitous conditions are met. These conditions include the performance of technologies that have yet to come into fruition, the ability to attract and retain stakeholders, and the willingness of customers to pay for the products and services offered by the venture (Garud et al. 2014).

However, research suggests that these conditions are seldom realized given the range of uncertainties that early stories can effectively mask (Ansari and Garud 2009, Van de Ven et al. 1999). Technologies upon which the venture is based may not perform as projected, thereby challenging the very assumptions and ideas underpinning the venture. Relational ties may not work out as planned, as suppliers and collaborators pursue their own strategies. Customer preferences change even as they try out a venture’s offerings.

When such contingencies arise, some of the cognitive and pragmatic expectations generated by entrepreneurs through their early entrepreneurial narratives will not be met. An inability to meet these expectations draws the scrutiny of stakeholders who offered their support because they were excited by the novelty in early projective stories (Barry and Elmes 1997). Once vested in the performance of a venture, stakeholders are likely to track its performance more closely than if they were not involved, being especially watchful for any deviations from plans (Ashforth and Gibbs 1990). In other words, projective stories enhance the attention that stakeholders give to the implementation of venture plans by the entrepreneurs.

Eventually, to the extent that milestones are missed repeatedly, the venture becomes less comprehensible to stakeholders, thereby decreasing its cognitive legitimacy. For instance, if a start-up delivers a limited prototype because of technical difficulties, the “market opportunity” may become less clear, an outcome that Apple Computers experienced with its Newton MessagePad.<sup>6</sup> Or a venture’s business model may become incomprehensible if some

stakeholders do not deliver (Doganova and Eyquem-Renault 2009). In addition, the venture may confront a new context and therefore have to be reconfigured (for instance, through changes in the entrepreneurial team). Such modifications may not be comprehensible to stakeholders, thereby exacting a legitimacy toll (Golant and Sillince 2007).

An inability to fulfill pragmatic expectations threatens or undermines pragmatic legitimacy. Deephouse and Carter (2005, p. 335) argued that legitimacy accrues to those organizations that are able to convert resources into goods and services and have positive financial outcomes. In this regard, Hirsch and Andrews (1984, pp. 173–174) noted that “when organizations are perceived by relevant actors as having failed to execute the purpose for which they are chartered . . . their performance in ‘delivering the goods’ and meeting the goals of their mission are called into question.” Under these circumstances, stakeholders may conclude that they will no longer benefit by continuing to support the venture, thereby leading to a loss of pragmatic legitimacy (for more arguments on the reciprocal relationship between legitimacy, resources, and growth, see Zimmerman and Zeitz 2002, p. 417).

In sum, an inability to meet expectations that are set through entrepreneurial storytelling can lead to a loss of cognitive and pragmatic legitimacy. When a venture encounters such loss, stakeholders may begin withholding support (Hirsch and Andrews 1984, pp. 173–174). Not only do stakeholders risk losing their investments but also their reputations just by association. In turn, a loss of support from some stakeholders (e.g., a key customer or financier) may inhibit a venture’s ability to fulfill its commitments to other stakeholders (e.g., pay salaries to employees, deliver services to customers on time). As links that a venture forges with its stakeholders turn sour or break, a vicious circle may ensue (Masuch 1985, Venkataraman and Van de Ven 1998); loss of legitimacy can lead to the withdrawal of further resources, which then reduces the ability of the venture to fulfill its obligations, an outcome that further depletes legitimacy (Ashforth and Gibbs 1990, Zimmerman and Zeitz 2002).

### Environmental Legitimacy Jolts

Recent work highlights the potential costs that organizations pay by aligning with macro discourses (Granqvist and Laurila 2011). To appreciate these costs, we once again draw from the sociology of expectations literature that documents how macro discourses create “collective expectations” about new technologies, markets, and categories that may shift over time or can lead to collective disappointments (Borup et al. 2006, Brown and Michael 2003, Konrad 2006, Konrad et al. 2012). As these shifts occur and disappointments are encountered, the legitimacy of the ventures that offered stories based on these technologies, markets, and categories is also adversely influenced. As discussed above, stakeholder expectations

are mediated by intertextual links across entrepreneurial narratives and media accounts, especially when they lack in-depth knowledge of a venture's operations (Rindova et al. 2006). Rather than serve as the basis for establishing positive future projections, these intertextual links now become the conduits of disappointment (Jonsson et al. 2009). Indeed, even when an individual venture may be progressing as planned, broader doubts can undermine a venture's cognitive and pragmatic legitimacy. In sum, aligning a venture with widely shared expectations to gain "institutional capital" (Lounsbury and Glynn 2001), although beneficial during early stages of a venture's emergence, also comes with potential costs.

We label the loss of legitimacy that accrues to a venture because of shifts in collective expectations as a legitimacy jolt. Such jolts can delegitimize specific organizational forms (Aldrich and Fiol 1994), emerging collective identities (Wry et al. 2011), and wider cultural symbols (such as "the Internet" or "social media"). Even cautious entrepreneurs confront difficulties escaping such jolts when their earlier stories incorporate widespread collective expectations through intertextual linkages (Konrad 2006).

The dot-com "bust" is a well-known example of a legitimacy jolt (Goodnight and Green 2010). A whole swath of media firms were unable to meet collective expectations that had been set, which then led stakeholders to withdraw support for dot-com ventures. This symbol of collective identity, one that had initially helped entrepreneurs project future growth and gain legitimacy, now became associated with unmet expectations.<sup>7</sup> Soon after January 2000, new media collective "growth stories" (Wry et al. 2011) began losing appeal as dot-com firms had few actual accomplishments to show. The nationwide crisis that engulfed Internet stocks undermined the cognitive and pragmatic expectations that dot-com ventures had set. From his extensive coverage of the dot-com crisis, Cassiday (2002) concluded, "Simply creating an online division or floating an Internet tracking stock would no longer be enough" (pp. 295–296). The loss of legitimacy was evident to the entrepreneurs involved, with the cofounder of Agency.com noting, "As the system collapses, many ventures run out of money, and additional investment evaporates" and that "when one goes, they topple like dominoes. Then the word gets out immediately and suddenly 'e-tailing' goes from being the six-month word of the day to 'oh my God, if you're an e-tailer you're in trouble'" (quoted in Kait and Weiss 2001, p. 300).

The creation of collective expectations followed by disappointments (Konrad 2006) thus further extends the paradox of legitimacy. Entrepreneurs gain cognitive and pragmatic legitimacy by associating with collective expectations. But, in doing so, they render their ventures vulnerable to shifts in these expectations to experience legitimacy jolts (see also Dowling and Pfeffer 1975). These observations complement and add to an understanding of collective identity movements and growth narratives,

which organization theorists have offered as a positive resource for novel ventures (Wry et al. 2011). They also highlight how changes in the meanings of specific words (Loewenstein et al. 2012) used in an entrepreneurial story can change the overall meaning associated with a venture.

### **Maintenance and Reparation of Legitimacy**

So far, we have discussed how and why ventures may fail to live up to the expectations set for stakeholders, thereby losing cognitive and pragmatic legitimacy in their eyes. Despite the legitimacy gap that emerges, entrepreneurial firms may still continue pursuing earlier paths, as documented by Geiger and Antonacopoulou (2009). These researchers found that the dominant stories adopted by entrepreneurs of a biomanufacturing company prevented them from questioning prior assumptions even when the company encountered a crisis. In other words, stories can become self-reinforcing, thereby generating cognitive and behavioral constraints (e.g., Tripsas and Gavetti 2000) and an escalation of commitment to a failing course of action (Staw et al. 1981).

However, as the legitimacy gap widens, stakeholders will eventually hold entrepreneurs accountable (Dowling and Pfeffer 1975). Clumsy efforts by entrepreneurs to win back legitimacy can lead to further losses; stakeholders can easily conclude that entrepreneurs who have lost credibility are being "manipulative and illegitimate" and that they "protest too much" (Ashforth and Gibbs 1990). Ignoring the past or providing excuses can backfire if entrepreneurs' accounts are not perceived to be credible. Attribution of causes for failures to exogenous factors when they could easily be ascribed to early projective stories can further erode credibility (Mantere et al. 2013). Scapegoating is even more dangerous. Blaming someone else for a team's mistakes can call into question the competence of the entrepreneurial team.

### **Addressing Legitimacy Gaps Through Revised Storytelling**

Based on our earlier theorizing, we discuss two key interrelated mechanisms underlying revised storytelling to maintain legitimacy or regain it if it is lost—replotting and reconfiguring links that constitute a story. These mechanisms address threats to cognitive and pragmatic legitimacy by attempting to rebuild comprehensibility and plausibility for a venture while trying to make sense of what has transpired. We discuss these possibilities as well as the constraints involved in offering a revised story to regain legitimacy.

*Replotting.* We begin with O'Connor's (2002) account of how one company in Silicon Valley replotted its story to maintain legitimacy. During the time of her study, in the year 2000, Silicon Valley's economy went from boom to bust. She noted that the venture's earlier narrative was no longer a viable plot given the change



in the larger discourse in the field (what she labeled as “situational stories”). That is, the “discord” between the larger discourse and the early entrepreneurial storytelling were such that the latter was no longer considered to be legitimate by stakeholders. O’Connor reported,

Within a period of weeks, the founder had to reposition his company into this new and opposite plot-line. A few of the issues in the new plot-line were that (a) profitability went from a non-issue to the main point; (b) the prospect of getting to initial public offering (IPO) status went from the main point to a non-issue; and (c) short-term, extraordinary wealth went from a possibility to an impossibility. The founder had to adjust his narrative in response to the change in background story. (p. 39)

As O’Connor’s (2002) description highlights, replotting a story implies modifying aspirations for the future given changed circumstances. In these revised stories, the basis for establishing pragmatic expectations will be different from the way it was established in early stories. Specifically, confronting threats to legitimacy, a venture’s revised story will now have to stress substantive management (changes in goals, structures, and practices) rather than rely only on symbolic management (Ashforth and Gibbs 1990, Zott and Huy 2007). This is accomplished by shifting the basis of pragmatic expectations from possible benefits in the distant future to more concrete and measurable accomplishments. That is, stories that are based on claims about the deployment of resources to obtain measurable outcomes in the immediate future will appear more plausible under these circumstances.

Whereas these observations speak to resetting pragmatic expectations, replotting underlies the resetting of cognitive expectations as well. Entrepreneurs confront a critical challenge in this regard. On the one hand, the past cannot be abandoned, as affected stakeholders are likely to remember earlier expectations that were set (Brown and Michael 2003). On the other hand, the past cannot be performed as earlier projected given that the situation has now changed. In this regard, Boje (2008, p. 10) noted that actors can renarrate their activities in such a way that the revised story builds on the past and yet is different enough to deal with shifts in contexts and outcomes. Abolafia (2010) documented such transformation in his study of the Federal Reserve Bank. From his study, he concluded that it is through reinterpreting the past through “narrative innovation” that “existing narratives are updated, meanings are revised, and new expectations are implied in the narrative” (Abolafia 2010, p. 356).

In the entrepreneurial context, such revision involves the modification of a venture’s business model and its restructuring (Doganova and Eyquem-Renault 2009). For instance, Bilton (2013, p. 58) chronicled the transformative process whereby Odeo, a failing venture, became Twitter, noting, “Changing the focus of a start-up is not like the metamorphosis of a traditional business—like trying to turn a high-end clothing store into a construction company.

Instead it is more akin to altering the type of food a restaurant serves. Although the cuisine the customers are served changes, sometimes drastically, the same chefs and waitstaff can be used to make and serve it. Or, in Odeo’s case, the same programmers, designers, and managers.”

*Reconfiguring Links.* Replotting to reestablish comprehensibility and plausibility is conditional upon the relational links that entrepreneurs now establish in their revised stories. Some of the links to “resource” and “institutional” capital (Lounsbury and Glynn 2001) that formed part of a venture’s early story may no longer be viable to reestablish cognitive and pragmatic expectations (Doganova and Eyquem-Renault 2009). Building on observations from Brown and Michael’s (2003) work, perceptions of uncertainty by stakeholders can be reduced by disassociating a venture from those elements that are speculative. Moreover, by severing ties with actors, ideas, and technologies that have become discredited, a venture can mitigate loss of legitimacy by association (Devers et al. 2009). For instance, many companies dissociated from the dot-com label after it lost its legitimacy, even as they framed their existing skills as competencies that could be used for graphic design in advertising (Indergaard 2004). In a similar vein, Ries (2011) offered an account of Votizen, a venture that attributed its disappointing market results to social media and so adjusted its story by removing this element from its story.

At the same time, not all the relational links that had been conceptualized in the past need be abandoned. As the study by Doganova and Eyquem-Renault (2009) shows, reformulated business plans can still build on some of the elements that otherwise would have been considered to be mistakes or dead ends. Their study shows how entrepreneurs selectively incorporate some of the earlier social ties, technologies, and organizational capabilities into their stories to accomplish a modified goal. In addition, entrepreneurs also forge new ties with social and material elements to reestablish the comprehensibility and plausibility of their revised stories.

In sum, revised storytelling entails the strategic reconfiguration of relational links. For instance, ventures developing technologies based on artificial intelligence experienced a loss of legitimacy in the late 1980s when stakeholders became disillusioned with unmet expectations. Subsequently, ventures stopped identifying themselves with the label “artificial intelligence.” However, they continued exploiting the technologies they had developed but now used new terms such as “expert systems” (McCorduck 2004).

### Challenges to Revised Storytelling

The challenges involved in offering a revised story are different from those involved in the early stages of a venture. Now, any possibility of revising a story is conditional upon the pliability of the commitments and fungibility

of investments made during start-up. Moreover, such possibilities are also constrained by legitimacy challenges that a venture encountered. Disappointments and legitimacy jolts enhance stakeholders' skepticism and their experience of uncertainty. In addition, the credibility of the entrepreneurs may be in question because they were unable to fulfill the expectations set or failed to foresee legitimacy jolts. Consequently, stakeholders may be reluctant to accept the expectations that entrepreneurs now try and set given loss of credibility (Czarniawska 1997).

As detailed in the studies by O'Connor (2002) and Doganova and Eyquem-Renault (2009), one way stakeholders respond is to become more involved. Through such involvement, stakeholders are better able to make sense of what happened and what may now be possible (McCorduck 2004). Moreover, stakeholders provide new ideas that entrepreneurs can evaluate as they craft a revised story that resonates with stakeholders. In addition, by becoming involved, stakeholders are likely to become vested in the newly emerging story they cocreate with the entrepreneurs. As Shaw et al. (1998, p. 50) argued, "When people can locate themselves in the story, their sense of commitment and involvement is enhanced."

### Summary

We have explicated the challenges and possibilities of revised storytelling as a way for entrepreneurs to deal with threats to legitimacy, either proactively or reactively. A revision of a venture's story, aimed at addressing both an individual venture's inability to meet expectations and legitimacy jolts, involves replotting and reconfiguration of links to set new expectations that stakeholders again find comprehensible and plausible. These revisions are tempered by issues such as loss of entrepreneurs' credibility, stakeholder skepticism, and the pliability of commitments.

Deuten and Rip's (2000) study offers an illustrative case that touches on some of these issues, although it relates to an internal venture rather than a stand-alone entrepreneurial firm. To convince board members, a project team had to put together a credible "start-up" story, which portrayed the enzyme, Gemmase (a fictional name used by the authors), as an essential animal feed and key element in the strategic portfolio of the company. Deuten and Rip (2000, pp. 72–73) noted that such start-up stories are "like a scenario, made robust through linkages with scientific, technical, economic and strategic elements, as well as the credibility of the authors." Once communicated and accepted by the board, the project team had "to use the plan in the story as a road map, even while realizing that the road [was] not there yet, and contingencies [had] to be faced" (ibid.). In other words, the entrepreneurs confronted cognitive and behavioral constraints that emerged from the very stories they had used to gain legitimacy in the first place.

The project team worked hard to fulfill the plans in the start-up story when threatened by setbacks. When such

efforts failed, the team had to engage in "repair work" to create a credible revised story to tell the board. The project's relationship with the board came under pressure when the company went through a strategic reorientation. This reorientation could have potentially delegitimized Gemmase. In response, the project team successfully repositioned Gemmase as a "specialty product" by shedding its image as a "commodity product" in the agriculture market. The fidelity of the new narrative was enhanced in the eyes of board members by emphasizing the environmental advantages that Gemmase offered, although the enzyme had not actually been developed for that purpose. This new linkage with the environment helped board members offer the public a broader story about the project and the company, as well as the positive role that biotechnology played in society, thereby mobilizing new resources. Public release of the story generated internal commitments for the project.

### Discussion and Conclusion

We have explored the role that expectations play in establishing legitimacy. Building on prior work from the literature on the sociology of expectations, we identified two kinds of expectations that are set and matched them with different forms of legitimacy—cognitive and pragmatic. We also examined how entrepreneurs set these expectations through projective storytelling, thereby complementing earlier work (Lounsbury and Glynn 2001, Martens et al. 2007). In addition, we explored the dynamics of legitimacy to explicate a paradox—compelling stories, while setting expectations and establishing venture legitimacy to help secure support from potential stakeholders, can also set the stage for the venture to encounter setbacks that can diminish its legitimacy. This paradox highlights the utility of considering entrepreneurial storytelling as an ongoing process and opens up several avenues for future research pertaining to (a) the setting of expectations to gain legitimacy, (b) disappointments and loss of legitimacy, (c) environmental legitimacy jolts, and (d) the maintenance of legitimacy or regaining it when lost. We discuss these in greater detail below.

### Setting Expectations to Gain Legitimacy

Our observations on the importance and challenges of setting cognitive and pragmatic expectations to garner overall legitimacy raise a number of questions that could be explored in greater detail through an analysis of projective stories. For instance, what is the level of abstraction at which early stories are pitched, and how do the details in the stories align with the time horizons that are evoked? What is the mix between the symbolic and substantive facets of expectations that are set in these projective stories, and how do they influence the success or failure of these stories in generating legitimacy in different settings? Recent research suggests additional questions: What roles

do prototypes, drawings, and other physical objects play in setting future expectations (Stigliani and Ravasi 2012)? And to what extent do projective stories build on the past to generate future expectations (Garud and Gehman 2012, Garud et al. 2010, Kaplan and Orlikowski 2013, Schultz and Hernes 2013)?

One way to address these issues is to conduct an analysis of the rhetorical strategies used in entrepreneurial stories (Suddaby and Greenwood 2005, Vaara and Tienari 2002) and match them with success and failure in garnering stakeholder support. Another way is to conduct controlled experiments wherein real or simulated projective stories are pitched to research subjects to see if they would lend their support. The findings from such experiments could then generate further insights on the challenges and possibilities of setting expectations with early projective stories.

Specifically, researchers could examine in greater depth the tensions between the setting of cognitive and pragmatic expectations and how these tensions influence the ability of a story to generate legitimacy for a venture. As we noted earlier, the excitement created by projective stories may well play a significant role in drawing the attention of stakeholders (Barry and Elmes 1997). However, such exciting portrayals of the future could raise questions about their plausibility. That is, although these ventures fall within stakeholders' consideration set (Zuckerman 1999), these ventures may nevertheless suffer a legitimacy discount. A systematic comparison of projective elements across stories could help shed light on successful approaches to securing resources.

### Disappointments and Loss of Legitimacy

As we outlined in this paper, a consideration of projective storytelling highlights a key paradox—whereas entrepreneurs must create future expectations to capture the interest and support of stakeholders, these expectations can also serve as a source of subsequent disappointments. This, we believe, is an important contribution to the emerging literature on storytelling and venture legitimacy, opening additional lines of inquiry for future research. Specifically, going beyond the role that entrepreneurial stories play in resource acquisition during early stages, our observations suggest that it is fruitful to also look at legitimacy challenges that arise during the course of an entrepreneurial journey. Issues such as the extent to which entrepreneurs are aware of emergent legitimacy gaps, whether or not they are proactive in maintaining legitimacy, and the challenges involved in regaining legitimacy once lost are all worth studying.

Although we have offered some preliminary thoughts on these matters, developing in-depth case studies of firms maneuvering through such legitimacy dynamics would be valuable. In particular, data on venture funding rounds matched with evolving business plans would identify those occasions when legitimacy issues are particularly

important. Moreover, quantified measures of cognitive and pragmatic expectations could be developed to relate story projectivity with the likelihood and magnitude of disappointments.

### Environmental Legitimacy Jolts

We also drew attention to relatively unexplored connections between future expectations in environmental contexts and stories offered by individual ventures (Borup et al. 2006). A focus on the intertextuality of stories highlights the strategic use of vocabularies (Granqvist et al. 2013, Loewenstein et al. 2012) to set cognitive and pragmatic expectations. By examining the dynamics associated with intertextuality, we highlighted another facet of the legitimacy paradox: Entrepreneurs establish legitimacy by connecting with widely accepted collective expectations, but they also become susceptible to exogenous jolts driven by emergent stakeholder skepticism and uncertainties about broader expectations. In this regard, more research is required on the potential costs to ventures as they embrace emerging collective identities and associated expectations to gain legitimacy.

Specifically, future research could further investigate the temporal dynamics between entrepreneurial stories and societal discourses that set broader cognitive and pragmatic expectations (Navis and Glynn 2010). For instance, to what extent can entrepreneurs distance themselves from delegitimized cultural symbols, and when should they do so in the overall process? Might it be that entrepreneurs who embrace broader growth stories only ceremonially (Granqvist et al. 2013) are likely to dissociate faster from symbols that lose currency compared with others who develop their identities around these stories? Addressing these and related questions would complement the research that organization theorists have conducted on the role of organizational populations (McKendrick and Carroll 2001, Romanelli 1991) and growth stories (Wry et al. 2011) as a source of legitimacy for individual organizations.

### Maintaining and Regaining Legitimacy

Still additional research opportunities emerge by considering revised storytelling to deal with threats to venture legitimacy. As we detailed, an ongoing commitment to initial plans despite setbacks can lead to a loss of legitimacy in the eyes of stakeholders. It is by providing a revised story of the venture—a task that involves replottting and the reconfiguration of relational ties—that these potentially constraining elements can be transformed to provide a pathway into the future. Entrepreneurs need not be stuck in the past nor do they have complete freedom to shape their futures. Instead, the perspective we have outlined here suggests a middle ground, one where entrepreneurs “pivot” (Ries 2011) to rearrange a venture's resource and institutional capital through revised storytelling.

These observations highlight the importance of conducting in-depth longitudinal studies of entrepreneurial journeys. Existing longitudinal process research has focused

on storytelling as a means of persuasion, including the portrayal of competence and the customization of narratives to meet the expectations of the audience (O'Connor 2002, 2004). This paper provides the basis for probing deeper. Following storytelling at different points in time, especially when legitimacy is threatened or lost, can shed light on the strategies that ventures use to retain or regain legitimacy. For instance, how do cognitive and pragmatic expectations that entrepreneurs set differ at various points of an entrepreneurial journey? What roles do stakeholders play? What changes are required in the entrepreneurial team to regain stakeholder confidence? Which relationships do entrepreneurs reinforce and which ones do they abandon? These are but some of the broad questions that this line of inquiry opens.

### Concluding Remarks

Taken together, these observations highlight the utility of considering projective storytelling as efforts by entrepreneurs to set future expectations to gain legitimacy for their ventures. These stories also guide entrepreneurs in their efforts to accomplish the expectations that were set. However, ventures are likely to confront many unforeseeable obstacles as their entrepreneurial journeys unfold. Consequently, entrepreneurs must constantly formulate, revise, and communicate expectations to respond to and actively prevent loss of legitimacy in the eyes of various stakeholders, or to regain it if it is lost. We have explored the challenges and possibilities of entrepreneurs offering revised stories to set new expectations, and to reconfigure a venture's journey. Relational ties to social and material elements that form a story are replotted and reconfigured through ongoing storytelling to generate new meaning as to what has transpired and what might now be possible. Entrepreneurial agency, from such a perspective, represents a process of continual framing and reframing of future aspirations and past events, even as an entrepreneurial journey unfolds over time.

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### Endnotes

<sup>1</sup>For some authors, narratives and stories are synonyms, but for others, they are quite different. For instance, Boje (2001, p. 1) noted that "traditionally, story has been viewed as less than narrative. Narrative requires plot, as well as coherence. In contrast, Czarniawska (2004, p. 17) offered a nearly opposite definition: "This chapter introduces a differentiation between narratives as purely chronological accounts and stories as emplotted narratives." To be consistent with Lounsbury and Glynn (2001), we use the term "stories" in this paper and consider the importance of a plot in setting future expectations.

<sup>2</sup>van Lente (2012, p. 773) noted, "In the case of technological expectations, it is not easy to distinguish between the validity of a claim and the collective perception of it . . . . In fact, the only reliable way to validate the claim is to try to achieve it."

<sup>3</sup>Kirkwood (1992, p. 32) noted, "Narrative is perhaps the foremost means by which such [future] possibilities are disclosed. Through storytelling, rhetors can confront the states of awareness and intellectual beliefs of audiences; through it they can show them previously unsuspected ways of being and acting in the world."

<sup>4</sup>Based on their study of U.S. Department of Energy's Hydrogen Program, Bakker et al. (2012) demonstrated how credible expectations depend on (a) a technology's current level of performance and its historical progress toward that level, (b) the sketching of a path forward to argue that even higher levels of performance can be achieved, and (c) the construction of an end target that is relevant to societal needs.

<sup>5</sup>We thank an anonymous reviewer for encouraging us to highlight the tensions involved in crafting early stories.

<sup>6</sup>We thank Mark Suchman for his input.

<sup>7</sup>Microfinance, despite its widely perceived initial success, is currently under scrutiny because of its associations with practices that communities consider illegitimate, suicides, and some ventures' inability to achieve expected financial success. Similar jolts in expectations and pragmatic legitimacy seem historically common in fields with a high level of uncertainty, such as artificial intelligence, biotechnology, and nanotechnology.

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