

Keeping it Real: How Entrepreneurs Effectively Disclose Risk

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To attract investment, be realistic about the risks, but present a compelling vision that excites potential supporters.

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For early-stage ventures, securing financial support from investors, crowdfunding campaigns, and other external sources is often critical to survival and growth. Investors and backers are drawn to ventures that demonstrate strong potential, but they are also aware of the inherent risks associated with startups.

This creates a challenge for entrepreneurs: On the one hand, they need to present a compelling vision that excites potential supporters; on the other, failing to acknowledge risks can make them seem overly optimistic or even disingenuous. Entrepreneurs must therefore navigate the fine line between maintaining credibility and securing buy-in.

Our research focused on understanding whether and how entrepreneurs might strategically disclose risk when communicating about a new venture idea—without creating negative perceptions of the idea.

We identified a tactic that some entrepreneurs use to pitch their crowdfunding campaigns more effectively. This tactic involves disclosing some risks while also “packaging” those risks with positive information –

which we described as compensation. Rather than deterring investors, this combination can actually make the venture more appealing than if the risks weren't disclosed at all. By acknowledging uncertainty while simultaneously providing reassurance, entrepreneurs can enhance perceptions of authenticity and trustworthiness—ultimately increasing their chances of securing financial support.

We hypothesized that using the compensation tactic—acknowledging risks while pairing them with positive information—would help entrepreneurs raise more funding. We also predicted that this effect would be even stronger when entrepreneurs were more specific in their disclosures, as clarity can enhance credibility. Additionally, we believed that this approach would make entrepreneurs seem more authentic, which in turn would boost their overall performance. Finally, we anticipated that this strategy would be particularly effective for male entrepreneurs, based on common investor expectations.

What We Studied

We conducted three separate studies to explore how entrepreneurs strategically disclose risk. The first was a field study analyzing 300 Kickstarter campaigns, where we manually coded how entrepreneurs framed risk and whether they paired it with positive information. This allowed us to examine real-world fundraising outcomes and identify patterns in successful campaigns.

The second study was a randomized experiment, where participants evaluated different campaign scenarios that varied in how specifically risks were disclosed. This helped us determine whether greater specificity influenced perceptions of authenticity. The third study was another randomized experiment, designed to test whether the effectiveness of this approach differed based on the entrepreneur's gender. By comparing



reactions to male and female entrepreneurs using the compensation tactic, we were able to assess how gender dynamics shaped investor perceptions and funding decisions.

What We Found

Our studies generally supported our theorizing. However, we found that the effects were actually stronger for female, as opposed to male, entrepreneurs, which led us to infer that demonstrating authenticity may be particularly crucial for female entrepreneurs to counteract stereotypical gender norms and expectations.

Takeaways

We believe that strategically disclosing risk is a powerful way for entrepreneurs to build trust with investors and secure funding. Rather than avoiding challenges or presenting an overly polished pitch, entrepreneurs can strengthen their case by acknowledging risks—but in a way that reassures potential backers. Here are some key strategies to do this effectively:

Pair Risks with Solutions – Don't just mention potential obstacles; show investors how you plan to overcome them. For example, if supply chain delays are a concern, explain the backup plans you have in place. This demonstrates foresight and preparedness.

Be Specific – Vague disclosures can raise red flags. Instead of saying, "We face some challenges with production," explain, "Our supplier has longer lead times, but we've secured a secondary provider to mitigate delays." Clarity builds confidence.

Frame Risks as Opportunities – Some challenges can actually highlight a venture's potential. If market adoption is uncertain, position it as an opportunity for early adopters to gain a competitive edge. Show how tackling risks head-on can lead to long-term success.

Use Data to Support Your Case – Investors respond well to numbers. If you're addressing a financial risk, provide projections or comparable case studies to show how similar businesses have navigated similar situations.

Highlight Your Team's Capabilities – Many investors back the people behind the business as much as the idea itself. If you're discussing a challenge, emphasize your team's expertise and past successes in handling

adversity.

Tailor Your Message to the Audience – Not all investors view risk the same way. Some may appreciate transparency, while others might focus more on growth potential. Understand what matters most to your audience and adjust your messaging accordingly.

By using these strategies, entrepreneurs can turn risk disclosure into an advantage—building credibility, strengthening investor confidence, and ultimately increasing their chances of securing the funding they need.

Conclusion

Many entrepreneurs assume that only highlighting the positives will make their venture more appealing to investors. However, our research suggests the opposite—strategically disclosing risk can actually lead to better outcomes. Investors appreciate honesty, and when entrepreneurs acknowledge challenges while demonstrating a clear plan to address them, it builds trust and makes the venture more compelling.

One of the most surprising findings from our research is that this approach is even more important for female entrepreneurs. While all entrepreneurs benefit from being perceived as authentic, female founders face additional scrutiny and often need to work harder to establish credibility. For them, transparency paired with strong solutions can be a particularly effective way to gain investor confidence.

The key takeaway? Authenticity matters. Entrepreneurs should focus on crafting clear, honest, and solution-oriented narratives—whether in investor pitches, marketing materials, or public communications. By showing both the potential and the plan for overcoming obstacles, founders can strengthen their appeal and improve their chances of securing funding.

Explore the Research

[Keeping it Real: How Entrepreneurs Effectively Disclose Risk.](#)

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