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## Business Exits and Reentry: Demand and Supply Explanations of Entrepreneur Career Choices

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## ABSTRACT

This dissertation is a compilation thesis consisting of three research studies on the normative and personal expectations that influence entrepreneurial engagement subsequent to business exits. Collectively, the three studies provide insights into how and when variances between performance expectations and actual business outcomes shift the demand and supply of different groups of experienced entrepreneurs. On the demand side, I theorize and empirically examine variances in acts and modes of entrepreneurial engagement that correlate to informal (stigma of business failure, masculine norms) and formal (regulatory environment) institutional contexts. On the supply side, I develop propositions about cognitive aspects of business exits that influence the motivation of experienced entrepreneurs to engage in serial entrepreneurship.

I ask the following three questions in my dissertation research: When and how do the fit or non-fit of exits from successful and unsuccessful businesses influence future engagement in entrepreneurship activity (Study 1)? How are the future career decisions of entrepreneurs who close failed businesses influenced by formal, i.e., the regulatory environment for doing business, and informal, i.e., the stigma of business failure, institutional contexts (Study 2)? Do differences in normative expectations influence the re-entry of male and female entrepreneurs differently following the closure of a failed business (Study 3)?

The extant studies in the entrepreneurship literature often emphasize the characteristics of the entrepreneur or the institutional context. This dissertation highlights the fact that social realities, in concert with the cognitive processing of business exits, shape the acts and modes of entrepreneurial engagement subsequent to business exits. The implications for entrepreneurship theory, policy and practice that arise from this duality are discussed.

**BUSINESS EXITS AND REENTRY: DEMAND AND SUPPLY  
EXPLANATIONS OF ENTREPRENEUR CAREER CHOICES**

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DISSERTATION

Submitted in partial fulfillment of the requirements for the  
Degree of Doctor of Philosophy in Business Administration  
In the Graduate School of Syracuse University

August 2012

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## **DEDICATION**

I dedicate this dissertation to Family, whom I love with all of my heart.

Thank you for your unconditional support.

## **ACKNOWLEDGEMENTS**

I give special acknowledgement and a warm thank you to Professors Johan Wiklund, Tom Lumpkin, Alexander McKelvie, James Bellini, dt ogilvie and Kira Reed for your unselfish contributions and your holistic support of my PhD journey. I am eternally grateful to each of you. I also acknowledge Melvin and Patricia Stith, Ted Hagelin, Jon Carr and Jonathan Levie for your steadfast dedication to advancing my dissertation research and for your wisdom.

To Johan, you are my most gracious and trusted advisor, mentor and friend. You knew when to hold my hand and when to let go so that I could find my own way.

To Al and Joia, we encountered many challenges but as a family we persevered. To Mom, Dad, family and friends, you were always there as beacons of light. Thank you for all the love and support. To Grandpa Willie, Grandmas Allen and White, Papa Simmons, Brother Jeremy and Auntie Sister and Denzil, I see you.

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## **CHAPTER 1: INTRODUCTION**

The early studies in the entrepreneurship literature singularly emphasize the characteristics of the entrepreneur or the institutional context. Contemporary definitions and delineations of the academic domain of entrepreneurship emphasize the nexus of profitable opportunity and enterprising individuals (i.e., Shane & Venkataraman, 2000). The underlying premise of this nexus is that the opportunities that exist are demanded by the potential supply of entrepreneurs (Alvarez & Barney, 2007; Kirzner 1999). Accordingly, popular explanations for variances in the total entrepreneurial activity across countries focus on cultural norms (Taylor & Wilson, 2012) and socioeconomic conditions (Acs et al., 2005) that influence the opportunities that exist for entrepreneurs.

A better understanding of the nexus between profitable opportunities and enterprising individuals calls for greater emphasis on certain supply- and demand-side explanations of entrepreneurial activity that have received little attention in the literature to date (Carter et al., 2003). Entrepreneurship is an outcome of environmental constraints and individual career choices that vary greatly across time and space (Carr, 1996). Accordingly, there can be more or less demand for entrepreneurs because of shifts in the institutional pressures and normative expectations for different groups of entrepreneurs. My dissertation research highlights that shifts in the social realities for different groups of entrepreneurs, in concert with the cognitive processing of business exits, shape the acts and modes of entrepreneurial engagement that occur subsequent to business exits. My dissertation research also highlights that the societal demand for different groups of entrepreneurs is not always equivalent and shifts across time and events.

My dissertation is a compilation thesis of three research studies on the institutional contexts and cognitive processes that influence the future entrepreneurial engagement of experienced

entrepreneurs who exited their businesses for both positive and negative reasons. An “entrepreneurial exit” is the path or process by which individuals depart from businesses that they founded (DeTienne, 2010). While the term itself would appear to have a negative connotation, entrepreneurial exit does not equate with failure. Rather, entrepreneurs exit from businesses that are in both gain and loss positions. Entrepreneurial exits may also be either voluntary or involuntary. Note that I use the terms “entrepreneurial exit” and “business exit” interchangeably.

The general purpose of my dissertation is to expand and contribute to the growing literature on business exits. I integrate research from cognitive and social psychology with institutional theory to provide supply and demand explanations for the future engagement or disengagement of entrepreneurs who exit businesses under diverse gain or loss conditions. The narrower goal of my research is to understand better how individual and societal expectations influence the acts and timing of re-entry for different groups of entrepreneurs. As such, I investigate both demand and supply explanations for the cross-country variations in the probability of entrepreneurial re-entry subsequent to entrepreneurial exits (Hessels et al., 2011). Contemporary definitions of entrepreneurship separate the act of entrepreneurship from the mode of entry and manner of organizing (Shane & Venkataraman, 2000). Little research, however, has been carried out that explicitly distinguishes the re-entry *act* itself from the *process* of exit and re-entry.

My dissertation provides a theoretical and empirical investigation of this distinction. In the three studies, I ask the following questions: When and how does the fit or non-fit of exits from successful and unsuccessful businesses influence future engagement in entrepreneurship activity (Study 1)? How are experienced entrepreneurs influenced by formal (i.e., regulatory environment for doing business) and informal (i.e., stigma of business failure) institutional contexts (Study 2)?

Do differences in normative expectations influence the re-entry of male and female entrepreneurs differently following the closure of a failed business (Study 3)? An overview of each study is presented in the following sections of the introductory chapter, which concludes with a roadmap for the remainder of the dissertation.

### 1.1 Supply- and Demand-Side Explanations for Entrepreneurial Activity

In my dissertation research, I define “demand” as societal needs or wants for the entrepreneurial talents of individual entrepreneurs, and “supply” as individual ‘needs or wants’ that factor into entrepreneurial career choices. In other words, entrepreneurs are suppliers of goods demanded by society. The Global Entrepreneurship Monitor (GEM) 2009 Executive Report observes the prevalence rates of entrepreneurial activity, which range from as low as 3.9% of the adult population in Russia to as high as 33.6% in Uganda (Bosma & Levie, 2010). The literature offers supply- and demand-side explanations for this variance. Entrepreneurship research to date however has placed more emphasis on understanding the supply of entrepreneurs than on society’s demand for different groups of entrepreneurs (Dahlqvist & Wiklund, 2012; Shane & Venkataraman, 2000). What this means is that part of the nexus between individual entrepreneurs and opportunities is underspecified in the literature (Dahlqvist & Wiklund, 2012).

Supply-side explanations emphasize variances in entrepreneurial intentions, skills to exploit opportunities, prior experiences and life situations that influence the proclivity to choose an entrepreneurial career (i.e., Koellinger & Minniti, 2006; Cliff, Jennings & Greenwood, 2006; Koellinger, Minniti & Schade, 2011). Supply-side explanations of entrepreneurial engagement are valuable although, at present, the literature is vague as to whether entrepreneurs with equivalent prior experiences and life situations place the same value on entrepreneurship as a

career choice. Additionally, supply-side explanations do not fully explain how changes in the demand for entrepreneurship activities influence the size and diversity of the supply of entrepreneurs who are willing and able to pursue the opportunities that exist (Baumol, 1990; Schumpeter, 1934).

Demand-side explanations, on the other hand, emphasize the variances in demand for entrepreneurs to exploit extant business opportunities with a number of articles focusing on the institutional norms and regulatory environments for doing business (Fairlie & Robb, 2009; Carter & Allen, 1997). For example, the demand for entrepreneurs demonstrably increased as new infrastructure such as the Erie Canal, the Transcontinental Railroad and broadband internet came online (cf. Thurik et al., 2002), and with the emergence of new industries such as biotechnology and the growth of the markets for commercial science (Etzkowitz, 1998; Murray & Graham, 2007).

There are also examples in the literature of institutional pressures that shape the demand for entrepreneurs. Baumol argues that in ancient Rome, entrepreneurship was stigmatized and those individuals that engaged in commercial activity were subjected to negative social judgment. Consequently, individuals in the normative group opted for other careers and the entrepreneurship activities of disenfranchised individuals were in demand (Baumol, 1990). Arguably, some disadvantaged groups are still pushed into entrepreneurship because discrimination in the labor market or other constraints diminishes their access to other career options (Heilman & Chen, 2003). Over time, however, the phenomenal financial gains of high-profile entrepreneurs have attracted different socioeconomic groups into entrepreneurship. Such shifts could be seen during the early internet, biotechnology and social networking booms at the end of the previous millennium (Greene et al., 2001).

The three studies in my dissertation focus on business exits and collectively provide supply and demand explanations of variances in entrepreneurial engagement subsequent to business exits. In the next section, I provide an overview of each study and present the conceptual models that support the propositions in Study 1 and the hypotheses in Studies 2 and 3.

## 1.2 Overview of Study 1

Study 1 focuses on the cognitive regulatory systems of entrepreneurs and draws attention to the nuance that business exits can have both positive and negative implications for the engagement of entrepreneurs with similar cognitive orientations and financial outcomes. Although contextual variables are highly important to understanding business exits, the undertaking of the exit is still a cognitive choice that has to be made by the entrepreneur. Irrespective of whether this choice is viewed by the entrepreneur to be the outcome of success or failure, it is a choice driven not only by economic realities but also by the independent cognitive states of the entrepreneur. Accordingly, it would be difficult to provide explanations of the supply and demand of entrepreneurs without considering the cognition of individual entrepreneurs.

In general, the experiences of starting, owning and operating businesses are considered to have positive influences on the future successes of entrepreneurs (Ucbasaran, Wright, & Westhead, 2003; Ucbasaran, Westhead, Wright, & Flores, 2010). This is because the lessons of prior entrepreneurial experiences contribute to future venture success (Cope, 2011; Shepherd, 2003). At some stage in the life-cycle of a business, however, the entrepreneur must voluntarily (i.e. by sale or liquidation) or involuntarily (i.e. through bankruptcy or death) exit. Regardless of the business's financial conditions or the reasons for leaving, business exits trigger the self-reflective and self-reactive processes of entrepreneurs (Wiklund & Shepherd, 2008; Politis,

2008; Cope, 2011). Further, subsequent to exiting a business (other than by death), entrepreneurs must make the choice between re-entry into entrepreneurship or switching to alternative career paths.

In the growing literature on habitual entrepreneurs who engage in serial entrepreneurship, (i.e. re-entry from business exits), scholars have emphasized differences in the human, social and financial capital of entrepreneurs (Westhead, Ucbasaran & Wright, 2003, 2005; Kalleberg & Leicht, 1991; Ucbasaran, Wright & Westhead, 2008; Stam, Audretsch & Meijaard, 2008). More recently, scholars have also begun to examine how differences in the human capital of serial entrepreneurs influence the timing of their re-entry into entrepreneurship (Amaral, Baptista & Lima, 2011). There are still, however, aspects of business exits and re-entry that have received limited attention in the literature. The first is the cognitive processing of the business exit by entrepreneurs. The second is the exit route (i.e. the exit process). It is my contention both aspects are important to understanding how business exits shape the future engagement of entrepreneurs. In other words, despite the informative body of literature on habitual and serial entrepreneurship, there are gaps in our understanding of how the attributes of business exits interact with the cognitive systems of individual entrepreneurs to shape the acts and modes of re-entry.

In Study 1, I develop a conceptual model and testable propositions as to when and how the cognitive fit or non-fit of business exits motivates future entrepreneurial engagement. There are different attributes of business exits and different cognitive states that are activated as a result. Many entrepreneurs exit from successful businesses. For persons who habitually engage in successful serial entrepreneurship, the literature emphasizes the beneficial outcomes of learning from prior entrepreneurial experiences (Westhead & Wright, 1998; Minniti & Bygrave, 2001). In

other words, the suggestion in the literature is that the success of one venture leads to future success (Gompers, Kovner, Lerner & Scharfstein, 2010).

Yet there are times when entrepreneurs can be forced or pushed to exit for economic or noneconomic reasons (Harada, 2007). These are more taxing for entrepreneurs – cognitively, financially and socially. In such contexts, the process of reflection and reaction can be dispiriting and cause distress (Shepherd, 2003; Shepherd & Kuratko, 2009), and can also disrupt the learning process (Westhead & Wright, 1998; Minniti & Bygrave, 2001). Under these circumstances, the question becomes whether such distressful exits will lead to future success or to more failure. Particularly with respect to business failure; the “implicit assumption is that learning from failure is automatic and instantaneous but this is highly unlikely” (Shepherd & Kuratko, 2009, p. 452; cf. Shepherd, Patzelt & Wolfe, 2011).

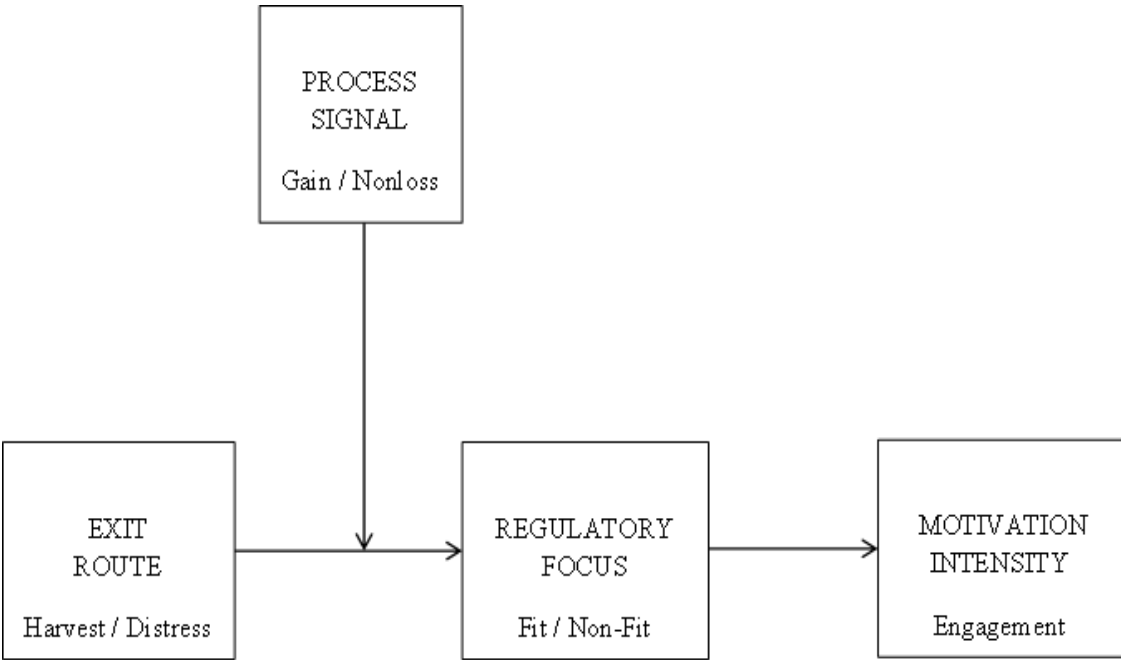
An interesting suggestion of Wennberg, Wiklund, DeTienne & Cardon (2010, p. 361) is that the learning and other outcomes of business exits “are contingent on whether an entrepreneurial project is framed as a gain or loss.” Drawing up Human Capital Theory (Becker, 1964) and Prospect Theory (Kahneman & Tversky, 1979), Wennberg and colleagues propose that there are four distinct types of business exits: harvest sales, harvest liquidations, distress sales, and distress liquidations. This taxonomy of exit routes provide initial insights into “when” (harvest or distress) and “how” (sale or liquidation) business exits occur, and demonstrates that business exits can be both rewarding and taxing. Still, questions remain about the likelihood that some entrepreneurs are more likely to be positively oriented about a particular exit than others.

I propose that a more comprehensive understanding of how entrepreneurs value prior entrepreneurial experiences and learn from them be intertwined in their cognitive orientation towards the business exit. Figure 1 depicts the theoretical model of Study 1. The central tenet is



that it is optimal for business exits to fit the activated promotion- or prevention-focused regulatory state of entrepreneurs. As I discuss further in Chapter 3, I propose that the gain and loss process signals from business exits moderate whether entrepreneurs with different cognitive states increase or decrease their motivation to engage in subsequent entrepreneurial activity. In short, Chapter 3 develops propositions for the implications of the process signals from harvest and distress exit routes on the motivation of entrepreneurs in promotion or prevention regulatory states to engage in future acts of entrepreneurship.

**Figure 1** Regulatory Fit of Business Exits



1.3 Overview of Study 2

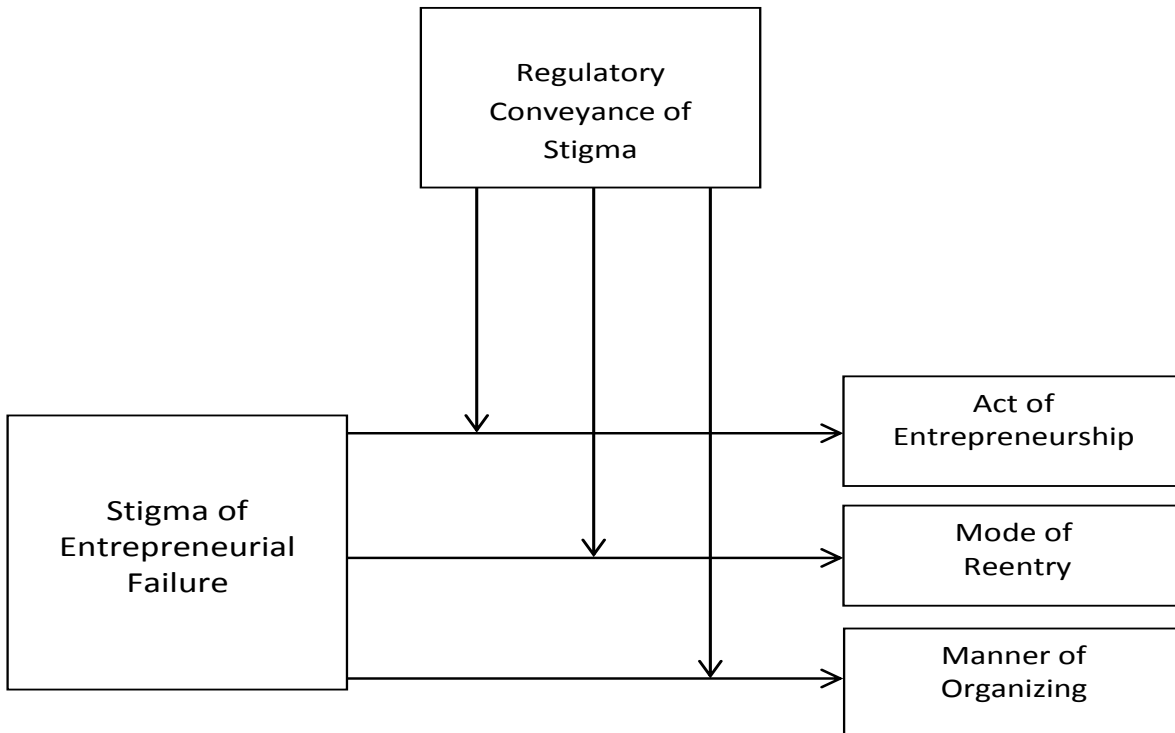
Study 2 draws upon the literatures on strategic responses to institutional pressures (Oliver, 1991) and stigma-coping tactics (Miller & Major, 2000; Jones et al., 1984). Building upon the insights of these literatures on organizational legitimacy and the social deviance of individuals

and organizations, I develop a theoretical model of the strategic responses to formal and informal institutional pressures of entrepreneurs who exit failed businesses. In Study 2, I conceptualize and empirically examine both formal (regulatory environment) and informal (stigma of business failure) institutional norms that influence the acts and modes of entrepreneurial engagement subsequent to business failure. Although contemporary definitions of entrepreneurship separate the act of entrepreneurship (i.e. new entry) from its mode of organizing (i.e. autonomous startups and corporate ventures), little research has been carried out that explicitly distinguishes the two, particularly in the context of re-entry after business exits.

Using a unique database that I constructed from data collected by the Global Entrepreneurship Monitor, World Bank and Eurobarometer entrepreneurship projects, I find that in countries where the levels of stigma (i.e. negative social judgment) of failure and the regulatory disclosure of information about business failures were at their highest, entrepreneurs who exited failed businesses were less likely to re-enter into entrepreneurial activity. I also find that there are contexts in which low negative social judgment interacts with low regulated disclosure of data on business failures to increase the likelihood that entrepreneurs who exit failed businesses will re-enter into entrepreneurial activity.

The conceptual model and empirical findings in Study 2 are indicative of the important linkages that can be drawn between the level of formal controls that exist in a country over stigma visibility and the micro-level strategic responses of individual entrepreneurs who exit failed businesses. Figure 2 depicts the conceptual model.

---

**Figure 2** Stigma and Regulatory Effects on Re-entry


#### 1.4 Overview of Study 3

In Study 3, I focus on the shift in demand for entrepreneurs who exit failed businesses. Specifically, I shed some light on the correlation between the normative expectations for entrepreneurs who fail (i.e. stigma) and gender gaps in the actual and deferred re-entry of male and female entrepreneurs after business failure. The extent to which people engage in entrepreneurship varies greatly across countries, but differences in the engagement of male and female constituents in entrepreneurship (the gender gap) is surprisingly constant. With the exception of impoverished countries, males appear to be about twice as likely as females to engage in nascent entrepreneurship and female entrepreneurs appear to be more likely to have negative perceptions of the entrepreneurship environment. Unfortunately, the mechanisms that underlie gender gaps in entrepreneurial engagement are still not well understood outside of the

context of nascent entrepreneurs. This gap in the literature should be addressed. To date, scholars have paid little attention to how and when male connotations of entrepreneurship lead to differential behavioral expectations of male and female entrepreneurs. Rather, explanations of the gender gap that dominate the literature focus on gender differences related to labor market participation, responsibility for children, risk preferences and similar variables that focus on the appropriateness, i.e. the supply side, of females entering entrepreneurship.

Supply-side explanations present only partial views of the gender gap, reinforcing the subordination of female entrepreneurs and understating shifts in the relative payoffs that society offers to different groups of entrepreneurs based on experience or legitimacy (Baumol, 1990; Ahl, 2006). There is, however, more variation in the demand, i.e. allocation of entrepreneurial activities, than in the total supply of entrepreneurs among societies (Baumol, 1990). Contributing to the variation are shifts in the demand for the activities of entrepreneurs that occur over time and space. Along these lines, two important questions that should be asked are: If the normative expectation is that male entrepreneurs will be successful, are male entrepreneurs also more likely to be sanctioned when they close failed businesses? Or, if female entrepreneurs are stigmatized throughout the entrepreneurial process as the literature suggests (i.e. through barriers to entry, loan discrimination and constrained network access), do female entrepreneurs develop different coping mechanisms for regaining legitimacy following business failure?

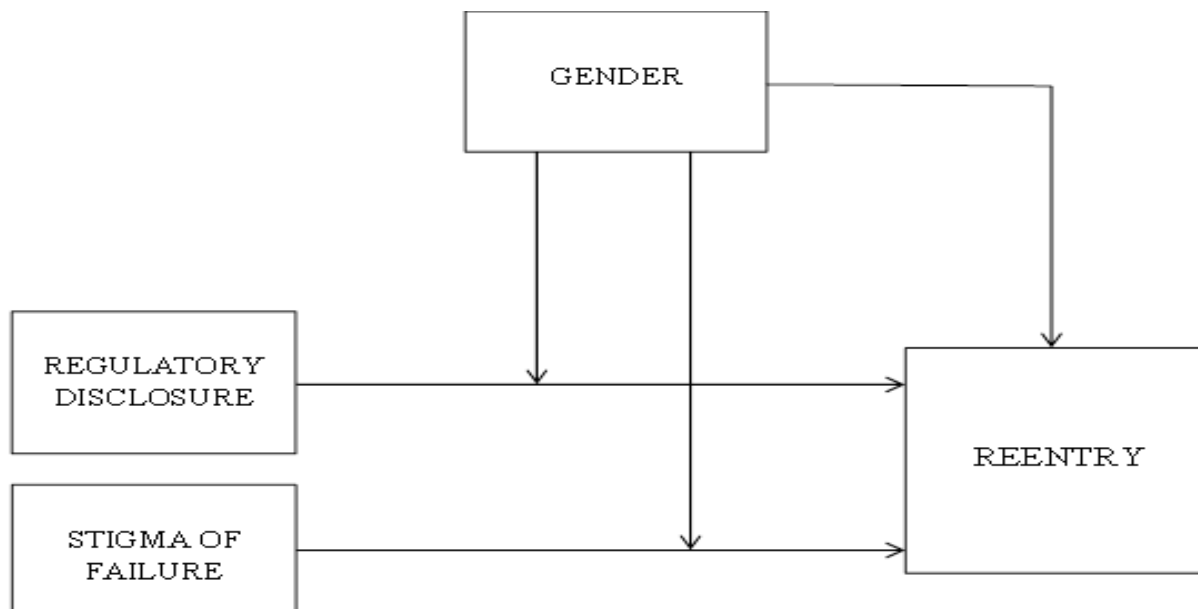
Study 3 uses biological sex as a proxy, albeit imperfect, for gender to examine gender differences in the effects of the stigma and regulatory disclosure of business failure on future entrepreneurial engagement. Feminist theory recognizes the distinction between “biological sex”, i.e. differences in reproductive organs, and “socially constructed sex or gender”, i.e. differences in behaviors and expectations associated with femininity or masculinity (Ahl, 2006, p. 596).

Similarly, entrepreneurship scholars recognize that gender identity plays a role in understanding sex differences in entrepreneurial career choices (Eddelston et al., 2008). I hypothesize that across societies, there is a negative correlation between the stigma of failure and the gender gap in re-entry after business failure, and that this negative correlation is stronger in institutional contexts that require greater regulatory disclosure of business failures to future stakeholders.

The empirical evidence from my hierarchical analysis of a sample of 2072 entrepreneurs across 23 countries from the Global Entrepreneurship Monitor (GEM) database demonstrates that the gender gap is present not only in the initial entry of novice entrepreneurs but also in the re-entry of experienced entrepreneurs (Davis, Babakus, Englis & Pett, 2010; Bem 1993; Stokes & Blackburn, 2002) who have experienced business failure. Figure 3 depicts the conceptual model for Study 3.

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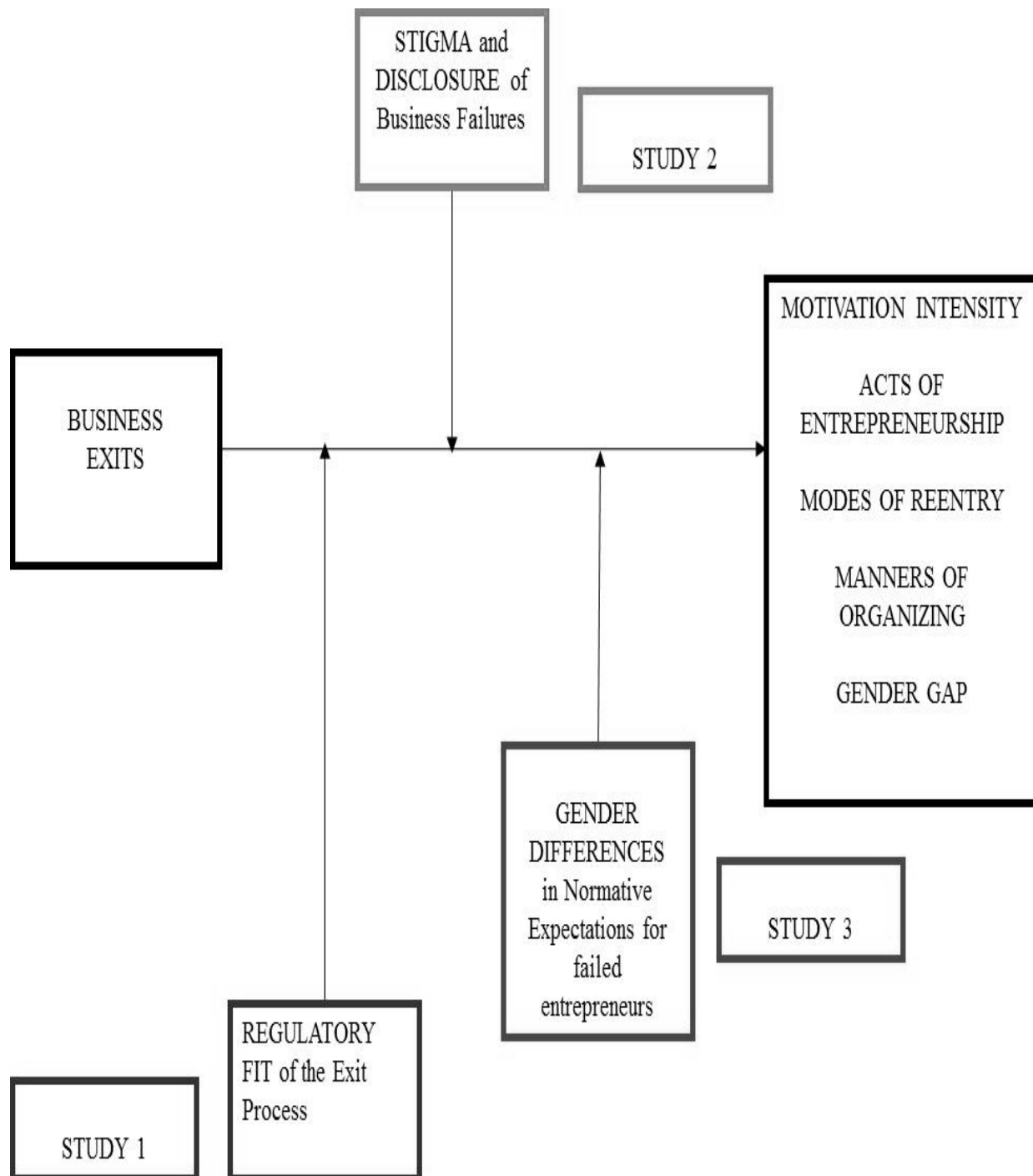
**Figure 3** Gender Gaps in Re-entry



## 1.5 Dissertation Structure

To recap, Studies 1, 2 and 3 in this dissertation focus on the institutional and cognitive processes that influence entrepreneurial engagement subsequent to business exits. In Study 1, *I examine the cognitive processes of entrepreneurs who exit entrepreneurship through harvest and distress exit routes*. The study proposes an integrative conceptual model and propositions, which describe how Regulatory Fit Theory informs gaps in the literature on when and how entrepreneurs value their exits from businesses in gain or loss situations. In Study 2, *I examine the connection between the stigma of business failure and the act, mode and manner of organizing re-entry*. The study extends the emerging research stream in the literature on the stigma of organizations and their managers to entrepreneurs who are subjected to negative social judgment because of business failure. In Study 3, *I examine the gender gap in the re-entry of entrepreneurs who have exited failed businesses*. The conceptual model and empirical tests in this study contribute to the emerging research stream that examines gender as an indirect or moderator variable to other variables that explain entrepreneurship outcomes. An integrated model of the dissertation research is shown below in Figure 4.

The remainder of the dissertation is organized as follows. Chapter 2 introduces the theoretical framework for the research. The conceptual framework, empirical findings and discussion of each individual study is expanded upon in Chapters 3 (*Study 1*), 4 (*Study 2*) and 5 (*Study 3*). Chapter 6 discusses the *limitations*, and Chapter 7 the *conclusions*, of each of the three studies. A discussion of the dissertation's contributions to entrepreneurship theory follows in Chapter 8, and to entrepreneurship policy in Chapter 9. Finally, concluding remarks are offered in Chapter 10.

**Figure 4** Model of Dissertation Research (Studies 1, 2 and 3)

## **CHAPTER 2 THEORETICAL FRAMEWORK**

### 2.1 Overview

In Chapter 2 introduces the theoretical framework of the research. As discussed in the introduction to the dissertation, both supply- and demand-side explanations of entrepreneurial engagement are needed to ascertain the nexus between individual entrepreneurs and opportunities for entrepreneurship. There are a number of supply- and demand-side explanations that can be proffered for the variance in entrepreneurial engagement. This dissertation focuses on the re-entry of entrepreneurs who have exited businesses. It provides explanations of how and when shifts in the demand for the re-entry of different groups of entrepreneurs are shaped by the formal (regulatory environment) and informal (stigma) contexts of the societies in which the entrepreneurs do business. It also seeks to explain how the cognitive fit of the conditions under which business exits occur can impact on motivation to re-engage in entrepreneurial activity in ways that can affect the supply of entrepreneurs.

The subsequent sections of Chapter 2 provide a review of the core theories, typologies and constructs that comprise the theoretical framework for the supply and demand explanations in this dissertation. Study 1 examines the cognitive implications of different exit routes. Section 2.2 provides a review of the literature on business exits. Section 2.3 overviews a taxonomy of exit routes from the extant literature. Sections 2.4 and 2.5 review the literature on Regulatory Focus Theory and Regulatory Fit Theory respectively, and Section 2.6 contains a detailed discussion of prior applications of Regulatory Focus Theory in entrepreneurship studies. Studies 2 and 3 are empirical studies of the implications of formal and informal institutional contexts on the demand for different groups of entrepreneurs. Sections 2.7 to 2.11 provide the theoretical framework for these studies. Sections 2.7 and 2.8 review Stigma Theory and the “stigma of business failure” respectively. Sections 2.9 and 2.10 discuss the disclosure of business failure through the



regulatory environment and introduce the Oliver (1991) typology of responses to institutional pressures. Lastly, Section 2.11 reviews the extant research on gender gaps in entrepreneurship activity.

## 2.2 Business Exits

The phrase “business exit”, as used in this dissertation, is defined as the path or process used by individuals pursuing entrepreneurial activity to depart from businesses they founded (DeTienne, 2010). While “business exit” would appear to have a negative connotation, the exit from a business does not necessarily equate with failure. Researchers have examined the characteristics of business exit to find that entrepreneurs can and do depart from both financially viable and unviable ventures for a number of reasons, including “legal problems, partnership dispute, death or simply a shift in interest to carry on with the same business” (Singh, Corner & Pavlovich, 2007, p. 32). Irrespective of whether entrepreneurs perceive their ventures to be successful or failing, they may choose to exit when opportunity and switching costs or other non-economic considerations suggest that more attractive opportunities exist (Bates, 2005). This departure can be accomplished via diverse paths such as mergers and acquisitions, IPOs, succession, internal and external buyouts and liquidations.

Different considerations influence the exit route or process, including the experience, age and human capital of the entrepreneurs, and the industry dynamics (DeTienne & Cardon, 2012; Wennberg, Wiklund, DeTienne & Cardon, 2010). There are also different levels of planning involved in business that may lead to the exits. Entrepreneurs with the goal of exiting either through a non-taxable or high-return transaction, for example, may already have an exit strategy in place early in the entrepreneurial process (Godfrey, 2000; Valery, 1999). In other cases, such

as poor financial conditions, bankruptcy or other involuntary causes, business exits may be non-strategic and occur under duress (Headd, 2003).

The research in this dissertation highlights the fact that a business exit may be a stimulus for entrepreneurs and their stakeholders to react to feedback on the success or failure of the business. Irrespective of whether the exit is voluntary or driven by economic realities, the act, mode and manner of organizing future entrepreneurial engagement are subject to the cognitive processing of the exit by the entrepreneur and to the normative expectations of stakeholders.

### 2.3 Taxonomy of Exit Routes

The Wennberg et al. (2010) taxonomy of exit routes is shown in Figure 1. The first two exit paths, harvest sale and harvest liquidation, occur in gain situations. The harvest sale context arises when the venture continues while the entrepreneur exits as majority owner and takes along a portion of the venture's economic value. Wennberg and colleagues describe this type of exit as the "sale of a highly performing firm" (p. 364). Alternatively, the other type of harvest exit is liquidation. Exits that occur in this form involve the dissolution of the venture as well as the exit of the entrepreneur. Harvest liquidations are also viewed as occurring in high-performing firms. In this case, however, the entrepreneur cashes out, and the remaining economic value of the firm is distributed to debtors, creditors and other equity stakeholders. Some of the considerations suggested by Wennberg and colleagues in the choice between harvest sale and liquidation are the "desire for expediency, aging or obsolete technology, inability to recognize a strategic buyer, or a capital-intensive firm with most of the value residing in marketable assets" (p. 364).

**Figure 5** Taxonomy of Exit Routes

<b>Performance:</b> <b>Exit route:</b>	<b>High</b>	<b>Low</b>
<b>Exit by sale</b>	Harvest sale	Distress sale
<b>Exit by liquidation</b>	Harvest liquidation	Distress liquidation

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The next two exit paths described by Wennberg et al. (2010) are the distress sale and distress liquidation. Both occur in loss situations, and are less under the control of the entrepreneurs than harvest exits. Specifically, distress sales are defined by Wennberg et al. (2010) as “the sale of a firm under financial distress” (p. 364), and are envisioned as a “flight from loss” (p. 364; see also van Witteloostujin, 1998). Distress exits occur when entrepreneurs realize that a venture is in a loss situation that may worsen given the available resources. In such situations, entrepreneurs may be pushed into a distress sale to avoid further losses. They may even be forced to liquidate the venture, instead of just selling their interest, for a variety of reasons: because it has no economic value to a buyer, for instance, or to preempt bankruptcy and the associated stigma (see also Pretorius & Le Roux, 2007; Thorburn, 2000; Wennberg et al., 2010).

#### 2.4 Regulatory Focus Theory

Regulatory focus theory draws upon hedonic principles (Lieberman, Molden, Idson & Higgins, 2001; Crowe & Higgins, 1997). Hedonic principles classify individuals with promotion-

focused regulatory systems as “pleasure seekers” and individuals with prevention-focused regulatory systems as “pain avoiders”. Regulatory focus theory extends beyond hedonic principles to distinguish individuals based on their tendency to engage in eager (approach) or vigilant (avoidance) strategic means in their goal pursuits. Promotion-focused regulatory systems have a tendency to engage in eager (approach) strategic means and prevention-focused regulatory systems have a tendency to engage in vigilant (avoidance) strategic means. Regulatory focus theory recognizes that a promotion or prevention regulatory system can be the chronic orientation of an individual, or can operate as an independent state that is momentarily activated by a situation or context (Lieberman, Idson, Camacho & Higgins, 1999; Crowe and Higgins, 1997; Brendl, Higgins & Lemm, 1995).

Regulatory focus theory also draws upon signal detection theory (Tanner & Swets, 1954; Swets, 1992) which suggests that when determining the presence or absence of a stimulus (i.e. gain or loss), there are four possibilities: correct identifications (hits), false alarms (errors of commission), misses (errors of omission), and correct rejections (hits). For entrepreneurs who are cognitively oriented towards a promotion focus, goal pursuits are approached with eager strategies focused on ensuring hits and on avoiding errors of omission. Stated differently, promotion-focused goal pursuits are motivated by the desire to attain gains and are sensitive to the presence or absence of positive outcomes (Higgins & Tykocinski, 1992). Prior studies have demonstrated that promotion-focused goal pursuits are likely to consider alternative correct paths or processes to achieve the ideal outcome (Crowe & Higgins, 1997; Smith, Wagman & Handley, 2009). On the other hand, goal pursuits in prevention focus are approached with vigilant strategies focused on ensuring correct rejections and avoiding errors of commission. Prevention-focused goal pursuits are motivated by the need to avoid losses and are sensitive to the presence

or absence of negative outcomes (Higgins & Tykocinski, 1992). Accordingly, where there are alternative correct paths or processes, prevention focus goal pursuits are repetitive in the paths or processes considered (Crowe & Higgins, 1997).

Promotion- and prevention-focused regulatory systems process the feedback from success and failures associated with goal pursuits differently, and prior studies have shown that performance and not just grief following errors or mistakes can be positively or negatively influenced by regulatory states (De Lange & Van Knippenberg, 2009). Additionally, the findings from experimental studies conducted by Liberman et al. (2001) suggest that promotion-focused individuals are more likely to generate more alternative hypotheses than prevention-focused individuals under both success and failure goal pursuit conditions (see also Idson, Liberman and Higgins, 2000; Forster, Grant, Idson, & Higgins, 2001).

Further, Idson et al. (2000) demonstrate that the intensity of eager feelings following goal pursuits that receive success feedback was greater for promotion-focused participants, while the intensity of vigilant feelings following goal pursuits that receive failure feedback was greater for prevention-focused participants. As an extension of this study, Forster et al. (2001) found that both the motivation to use eager goal pursuit approaches, and increases in the outcome expectations associated with those pursuits, were more likely to occur from success feedback when the study participants were in a promotion focus. They also found that both the motivation to use avoidance approaches and decreased outcome expectations were more likely to occur from failure feedback when the participants were in a prevention focus. Additionally, experiments conducted by Higgins, Friedman, Harlow, Idson and Taylor (2001) demonstrate that the subjective history of success motivates prevention-focused persons to pursue eager approaches to future goal pursuits. This finding suggests that strategic eager or vigilant goal-pursuit means

arise not only from chronic orientations but also from prior experiences of achieving success with a strategic approach. Nonetheless, Crowe and Higgins (1997) demonstrate that when individuals are placed under adverse conditions, promotion-focused participants persist longer at difficult tasks to insure against omission errors, while prevention-focused participants quit difficult tasks sooner in order to avoid commission errors.

Finally, another example of the relevance of promotion and prevention regulatory systems to the cognitive processing of success and failure feedback is counterfactual thinking. Promotion focus has been linked to upward evaluations and prevention focus to downward evaluations of actual outcomes that are based on alternative realities that might have occurred under different judgments, actions or circumstances (Markman, McMullen, Elizaga & Mizoguchi, 2006; Roese, Neal, Hur & Pennington, 1999; Roese, 1997).

In summary, regulatory focus theory provides theoretical guidance on how promotion- or prevention-focused individuals make choices that are in line with their goal pursuits. Differences exist in their cognitive processing of success and failure feedback, and in other motivational characteristics associated with decision choices (such as counterfactual thinking). An emerging research focus in the cognitive psychology literature builds upon regulatory focus theory and emphasizes the degree to which a particular outcome can sustain (or detract) from the intensity of future goal pursuits. This is referred to as “Regulatory Fit”.

## 2.5 Regulatory Fit Theory

Higgins (2000, p. 129) outlines the five propositions that encompass Regulatory Fit Theory. The first is that “people will be more inclined toward goal means that have a higher regulatory fit.” The second is that the “motivation during goal pursuit will be stronger when regulatory fit is higher.” The third is that “(prospective) feelings about a choice” to be made “will be more

positive when regulatory fit is higher.” The fourth is that “(retrospective) evaluations of past decisions or goal pursuits will be more positive when regulatory fit was higher.” Lastly, “people will assign higher value to an object that was chosen with higher regulatory fit.”

What is important to note about these five propositions is that they focus on the intensity of the positive or negative response to outcomes and processes and not on the regulatory system or goal-pursuit strategies in and of themselves (Higgins, Cesario, Hagiwara, Spiegel & Pittman, 2010). Subsequent research aimed towards a better understanding of regulatory fit has essentially synthesized the five propositions in the Higgins (2000) article into two core components of the value obtained from regulatory fit: “feeling right” and “strength of engagement” (Aaker & Lee, 2006, p. 15). “Feeling right” emphasizes that regulatory fit increases the value of a strategic choice or outcome of a goal pursuit by intensifying the hedonic response (Higgins, 2000). “Strength of engagement” emphasizes that regulatory fit intensifies the motivation and persistence in a person’s goal pursuits. The relationship between “feeling right” and “strength of engagement” has been discussed in the literature in two ways. Some studies (e.g. Avnet & Higgins, 2003) describe “feeling right” as a direct effect of regulatory fit on the value. Others (e.g. Avnet & Higgins, 2006; Pham & Avnet, 2009) describe it as an indirect relationship to value creation, moderated by strength of engagement.

Regulatory fit has been operationalized in the literature using both outcome-based and process-based approaches (Aaker & Lee, 2006). Outcome-based approaches focus on the presence or absence of gains and losses that are the outcome of strategic choices that attain or maintain the outcome (Lee & Aaker, 2004; Higgins et al., 2003; Idson et al., 2000; Freitas et al., 2002; Brodscholl, Kober & Higgins, 2007). As an example, Higgins et al. (2003) provided participants with a choice between a coffee mug and a disposable pen. The study was framed so

that the mug would be more desirable; however the choice between the mug and the pen was framed both with a focus on gains (i.e. what would be gained by choosing the mug and what would be gained by choosing the pen) and also with a focus on loss (i.e. what would be lost by not choosing the mug and what would be lost by not choosing the pen). Promotion-focused participants assigned a higher monetary value to the mug in the gain framing, while prevention-focused participants assigned a higher monetary value to the mug in the non-loss framing. These effects were also found to be independent of the participant's mood.

Process-based approaches are another way to operationalize value creation from regulatory fit. These approaches focus the attention of study participants on the strategies used in the decision-making process (Avnet & Higgins, 2006; Pham & Avnet, 2004; Cesario, Higgins & Scholer, 2008; Higgins et al., 2003; Higgins, 2000; Avnet & Higgins, 2003). For instance, experiments in the consumer marketing literature demonstrate that consumers are more likely to be persuaded by a message and place a higher value on a product when there is a regulatory fit between the "framing, delivery and context of message" and the "activated regulatory state" of the message recipient (Cesario et al., 2008). Regulatory fit has also been used in the consumer research literature to explain the dependence between the level of abstraction in communicated messages and the promotion or prevention focus of the consumer. For instance Lee, Keller and Sternthal (2010) were able to demonstrate the regulatory fit of promotion-focused individuals to messages with high levels of abstraction and of prevention-focused individuals to messages with low levels of detail. In these cases where regulatory fit was obtained between individual regulatory states and message concreteness, Lee and colleagues were also able to demonstrate that consumer attitudes towards the message were more positive.



To summarize, findings from prior studies using either process or outcome approaches demonstrate that when the context of the activity is positive (negative), regulatory fit increases (decreases) the pleasure and interests of the activity and strengthens (weakens) the motivation intensity during goal pursuit (Higgins, 2005, 2006; Spiegel, Grant-Pillow & Higgins, 2004; Higgins, Cesario, Hagiwara, Spiegel & Pittman, 2010; Shah, Higgins & Friedman, 1998; Smith, Wagman & Handley, 2009). So far, however, my discussion of prior studies has focused on the regulatory fit of the process or outcome. There are also motivational effects of “regulatory non-fit”.

A research stream is emerging in the literature that examines the implications of regulatory non-fit on future goal pursuits. The regulatory non-fit of a decision process or an outcome that is attained and the activated regulatory systems of the individual can have both positive and negative effects on future goal pursuits (Avnet & Higgins, 2003). The empirical evidence on how and why different effects occur is still emerging (Higgins & Scholer, 2009; Lee, 2009). However, there are suggestions in the literature that point to two kinds of “feeling wrong” experiences from the “regulatory non-fit” of goal pursuits. The first occurs when there is a non-fit of the decision process but the outcome of the goal pursuit is positive. The second occurs when there is a fit of the decision process but the outcome of the goal pursuit is negative. This regulatory fit in a negative context intensifies the negative value of undesired goal pursuits (Pham & Avnet, 2009). Findings in the literature suggest that the former “feeling wrong” experience (non-fit of the process) presents “an interference to oppose” while the latter (non-fit of the outcome) presents “a nuisance to cope with” (Higgins & Scholer, 2009; Lee, 2009).

## 2.6 Regulatory Focus (Fit) Theories in Entrepreneurship Studies

Regulatory focus theory can inform different stages of the entrepreneurial process, in particular exploration – idea creation and screening, resource acquisition – and exploitation – implementation of the business model (Brockner, Higgins & Low, 2004). In their 2004 article, Brockner and colleagues describe idea creation as promotion-focused because of the creativity involved, and idea screening as prevention-focused because of the need to be careful and accurate when reviewing potential business ideas. These scholars also describe resource acquisition and exploitation as stages of the entrepreneurial process that call for both promotion (i.e. persuasiveness and “eyes on the prize”) and prevention (i.e. sensitivity to not making mistakes and “sweating the details”) focused orientations.

Drawing upon the above themes, regulatory focus theory has supported a number of entrepreneurship studies that compare the chronic regulatory focus of “entrepreneurs” to that of non-entrepreneurs” (McMullen & Shepherd, 2002) and “intrapreneurs” (Corbett & Hmieleski, 2007). Additionally, Bryant (2009) suggests relationships between regulatory focus and the moral awareness of entrepreneurs (see also Camacho, Higgins & Luger, 2003); and Baron (2004, p. 231) suggests that when Regulatory Focus Theory is combined with Signal Detection Theory, entrepreneurship scholars can gain insights into “why some entrepreneurs are better than others at identifying viable opportunities.” More recent articles (Jintong, 2009; Trevelyan, 2011; Tumasjan & Braun, 2011; Fitzsimmons & Douglas, 2011) further demonstrate the relationships between regulatory focus and exploration and exploitation.

Using a sample of 365 entrepreneurs, Jintong (2009) demonstrates that entrepreneurial alertness (Kirzner, 1979) is positively related to the achievement motivation and internal locus of control of promotion-focused entrepreneurs. The findings of the study also led Jintong to suggest

that successful navigation of certain entrepreneurial contexts can require both promotion- and prevention-focused goal pursuits. Trevelyan (2011) similarly examined the role of regulatory focus in venture development and proposes that promotion-focused regulatory cognitive processes encourage exploration while prevention-focused processes encourage exploitation. Trevelyan suggests that the practical implication of this finding is that the selection and development of entrepreneurs can be more effective if premised on the self-regulatory system of the entrepreneur and not on their hidden preferences.

In another entrepreneurship study, Tumasjan and Braun (2011) demonstrate that the promotion-focused regulatory state is positively related to opportunity recognition, and can compensate for low levels of creativity and entrepreneurial self-efficacy. Finally, Fitzsimmons and Douglas (2011) draw upon regulatory focus theory to support the interaction effects of feasibility and desirability in the formation of entrepreneurial intentions (cf. Krueger, Reilly & Carsrud, 2000). Their empirically supported hypothesis is that in addition to main effects, there is also a negative interaction between feasibility and desirability because exploration to determine desirability is a promotion-focused activity and the investment of resources into exploitation is a prevention-focused activity. To support this hypothesis theoretically, the authors draw upon the suggestion of Brockner et. al. (2004) that there is a relationship between regulatory focus and exploration and exploitation activities, and the suggestion of Shaw and Higgins (1997) that the interaction of goal expectancy and goal value is positive for participants in promotion focus and negative for participants in prevention focus. Specifically, Shaw and Higgins suggest that the higher the goal expectancy, the greater the value to promotion-focused participants and vice versa.

Lastly, high goal expectancy increases the chances of harvest exits, while high sunk costs increases the chances of distress exits (Bates, 2005). Brockner et al. (2004) highlight the relationship between goal expectancies and sunk costs that entrepreneurs have in their businesses, and suggest that the message or signaling of positive or negative feedback drives the way in which promotion- or prevention-focused entrepreneurs respond to sunk costs. The relationship between signaling and regulatory focus is also demonstrated by the findings of Higgins (2000) that promotion-focused individuals respond positively to the signaling of better accessible alternatives to sunk costs (ensuring a hit), while prevention-focused individuals respond positively to the signaling of inaccessible alternatives (ensuring a correct rejection).

In summary, the entrepreneurship literature has to a large extent examined how the regulatory systems of entrepreneurs influence their decisions and actions at various stages of the entrepreneurial process. To date, however, entrepreneurship scholars have paid little attention to how the interaction, i.e. regulatory fit, of individual regulatory systems and entrepreneurial outcomes or processes influence entrepreneurial engagement subsequent to business exits. Chapter 3 will explore these topics in Study 1.

## 2.7 Stigma

Stigma arises from cultural sense-making, and can vary according to context or country (Cardon et al., 2011; Goffman, 1963). Stigma is the outcome of processes whereby social audiences form collective judgments about the consequences of bearing a particular marking, whereby persons who bear that marking are socialized to incorporate the judgments of the wider society into their conception of self (Goffman, 1963; Crocker et al., 1998). In ancient times, the Greeks used physical symbols, i.e. bodily marks, cuts and burns, to identify members of stigmatized groups such as slaves, criminals and traitors (Goffman, 1963). In modern times, the

economic or social sanctions imposed on the members of stigmatized groups can be more difficult to isolate and can vary based on the contexts that give rise to the blemished social identities (Rasmusen, 1996). Nonetheless, persons who bear particular markings share similar “moral careers” and face social and economic sanctions that are similar to other members of the stigmatized group (Goffman, 1963, p. 32).

Research on stigma originated in the sociology and social psychology literatures on social deviance, which focus on the implications of negative social judgments of others and where distinctions are made on basis of “visible” stigma such as race, nationality, gender or physical deformities (Goffman, 1963; Spicker, 1984). Interest in the impact of stigma expanded into the economics literature where scholars examined the cost of welfare benefits and imperfect information (i.e. stigma markings) on the social identities of individuals in a society. Specifically, researchers examined opportunities for disconnects between personal identity and social identity, with particular attention to the welfare effects of economic sanctions on unemployment, wage differentials and business closures (Furuya, 2002; Landier, 2005).

In the organizational realm, economic and social stigma have detrimental impacts ranging from reductions in bargaining power to the total disengagement of social, political and economic stakeholders (Sutton & Callahan, 1987). Yet, until recently, the stigmatization of organizations and their leaders has been neglected in the literature (Paetzold et al., 2008). The growing research on stigma in the literature focuses on the distinction between the stigmatization of organizations (e.g. abortion clinics, bankrupt firms) and of individuals (e.g. criminal CEOs) within an organization (Devers et al., 2009; Hudson, 2008; Sutton & Callahan, 1987; Wiesenfeld et al., 2008). From the starting point that the “stigma of organizations” and the “stigma of organization leaders” are two separate constructs (Sutton & Callahan, 1987), the contention of

organization researchers has been that there is a transfer of stigma between the organization and the leaders of the organization by way of association (Kulik et al., 2008). This transfer is particularly prevalent in the context of a failed organization (Sutton & Callahan, 1987; Wiesenfeld et al., 2008).

Organization researchers further suggest that whether the stigma of a failed organization will spill over to individual leaders depends on how closely the leaders are linked to the organization by time, proximity, and accountability (Semadeni et al., 2008; Tetlock, 1985; Page, 1984). To the extent that leaders are either present at the location of a stigmatizing event or have a leadership role when it occurs, they may be linked to it. The accountability link, however, is not necessarily bounded by time or location. Accordingly, organization leaders may be stigmatized by organization conduct that takes place prior or subsequent to their employment.

## 2.8 Stigma of Business Failure

There are three conditions for the experience of business failure to be associated with stigma attitudes, sanctions and behaviors. The first condition is the cultural sense-making of entrepreneurial failure as a stigmatizing behavior, i.e. outside of the norm (Cardon et al., 2011; Goffman, 1963). It is those activities of entrepreneurs that are outside normative expectations that are subject to stigmatization (Goffman, 1963; Jones et al., 1984). Because social norms and institutions vary by country, it makes sense that the magnitudes of business failure rates vary, as does the association of failure to stigma attitudes, sanctions and behaviors (Wiklund et al., 2010; Levie et al., 2011; EOS Gallup Europe, 2004). In their study of bankrupt firms, both Sutton and Callahan (1987) and Semadeni et al. (2008) found stigma to be damaging not only to the entrepreneurial ventures through lost relationships and renegotiated exchange relationships (cf. Zuckerman, 1999; Paetzold et al., 2008), but also to the individual business leaders who report

being hurt and embarrassed by tainted labels (cf. McKinley et al., 1996; Neu & Wright, 1992; Pozner, 2008).

The second condition is the acceptance of entrepreneurs of the stigma placed on them by social audiences. Theory suggests that stigmatized entrepreneurs will accept the stigma through a socialization process (Goffman, 1963). This acceptance of stigma often leads to performance pressures and social isolation of from the dominant group (Settles, 2004; Wyer et al., 2001). Prior empirical studies have also demonstrated that the stigma of business failure systematically influences the willingness of entrepreneurs to start new ventures or engage in risky activities (Armour & Cumming, 2008; Giannetti & Simonov, 2004; Landier, 2005; Sutton & Callahan, 1987).

To recap, the first two conditions suggest that the stigma of business failure influences the entrepreneurial process when there is a normative acceptance of the stigma by both the social audiences and the failed entrepreneurs. The third condition is that the stigma is discoverable by the social audience via formal or informal institutions that serve as information repositories and carriers. The next section of this chapter will discuss aspects of the regulatory environment that play a role in this third condition.

## 2.9 Regulatory Disclosure of Business Failure

The disclosure of prior business failures in regulatory environments, and the depth of information they communicate about stigma markings, varies from country to country. Stakeholders in a country typically agree on trying to balance the societal goals of protecting constituents from being harmed by illegitimate entrepreneurs while at the same time encouraging individuals to pursue entrepreneurial endeavors. This leads to attitudes, regulatory frameworks and reporting requirements that are in line with these societal goals. Empirical studies (e.g. EOS

Gallup Europe, 2004) suggest that “attitudes toward giving failed entrepreneurs the chance to start new businesses” vary substantially across countries. Similar variation across countries has been found in regulatory frameworks and reporting requirements (Armour & Cumming, 2008).

Prior research has shown that the regulatory environment plays a role in influencing entrepreneurial activity at the macro level (Levie & Autio, 2011; Haselmann et al., 2010). The severity of bankruptcy laws in a country arguably represents a salient form of stigma that influences the levels of entrepreneurship and accessibility to capital markets (Armour & Cumming, 2008). On the one hand, disclosure of prior business failures in favor of creditor rights may restrict innovation and growth in the technological industries (Acharya & Subramanian, 2009). On the other, it may be beneficial to lenders who extend credit to entrepreneurial firms in industries that provide societal benefits to a country (Djankov et al., 2007).

## 2.10 Strategic Responses to Institutional Pressures

This dissertation research aims to theorize and test empirically the correlation between institutional contexts and the act, mode and manner of organizing entrepreneurial engagement subsequent to exits from failed businesses. The Oliver (1991) typology informs this aspect of the research by providing insight into the influence of context and control on strategic responses to institutional pressures. There are five categories of responses in the Oliver (1991) typology: acquiescence, compromise, avoidance, defiance, and manipulation. In the education literature, Etherington and Richardson (1994) suggest that these five responses can be viewed along a two-dimensional level of activity (active or passive) and pattern (positive or negative). Along this dimensional level, Etherington and Richardson (1994) propose that the responses to institutional pressures fall into three categories: passive, active-negative and active-positive.



This research is also informed by the Miller and Major (2000) framework in the social psychology literature. Miller and Major (2000) suggest that the coping tactics that individuals employ to manage stigma can be categorized as either emotion-based or problem-focused, depending on the perceptions of control over the visibility of stigma markings (Miller & Major, 2000). The researchers propose that where perceived control over visibility is lower, the approach to stigma management is likely to involve emotion-focused tactics to escape, minimize, dismiss, disengage or unlink from the stigmatized failure event. In contrast, where perceived control over visibility is higher, the approach to stigma management is likely to involve problem-focused tactics either to change the applicability of the stigma marking to oneself, or alternatively to avoid or change situations where the stigma marking will influence constituents (Miller & Major, 2000).

With regard to this dissertation, the typologies proposed by Oliver and by Miller and Major provide perspectives that highlight the pressures of formal and informal institutions within a country (Clemens & Douglas, 2005). It views the five categories proposed by Oliver on two dimensional levels. The first is the institutional pressure or stigma of business failure (high or low). The second is the control over stigma visibility (high or low) that is diminished by the public availability of information about prior business failures.

In other words, the tactics that entrepreneurs deploy to navigate their re-entry will vary in terms of degree of conformance to normative expectations and also in terms of the control over the choice of tactics that can be deployed. The last section of this Chapter discusses the gender gap in entrepreneurship, with a focus on the differences in the normative expectations for male and female entrepreneurs.

## 2.11 Gender Gaps in Entrepreneurship Activity

What is surprising is that despite the wide variation in the prevalence of entrepreneurship across countries, the gender gap remains consistent (Allen et al., 2006; Minniti et al., 2005). Although researchers have examined the gender gap in entrepreneurship (Verheul et al., 2006; Wagner, 2006), the mechanisms that underlie its supply and demand sides are still not well understood (Coleman & Robb, 2009; Minniti, 2009, 2010). Supply-side explanations relate gender differences to labor market participation, responsibility for children, risk preferences and similar variables. Demand-side explanations, on the other hand, hold that the dominance of men in networks such as banking and finance that are critical to entrepreneurship constrain the demand for the entrepreneurial activity of women (Van Stel et al., 2007; Alsos et al., 2006). In her extensive review of gender issues in entrepreneurship, Minniti (2009) suggested that supply-side explanations dominate the literature. Nonetheless, the contextual effect of differences in the demand for females to enter into entrepreneurship across countries is an important component of the gender gap (Minniti, 2009; Minniti & Nardone, 2007).

Gender is an “integral connection between two propositions; gender is a constitutive element of social relationships based on perceived differences between sexes, and gender is a primary way of signifying relationships of power” (Scott, 1986, p. 1067). Whether there can be gender neutrality of female entrepreneurs within a male-dominated context is still debated in the literature. Male-dominated market structures are at the core of capitalism (Acker 1988, 1990), and historically entrepreneurship has been characterized as a masculine domain (Bird & Brush, 2002). Taken-for-granted cultural accounts (Suchman, 1995) of entrepreneurship credit male entrepreneurs for the development of the entrepreneurial economy and set the normative expectation that male entrepreneurs who carry this high status will be successful in this domain

(Suchman, 1995; Podolny, 1993, 1994). This unfortunately means that taken-for-granted cultural accounts of entrepreneurship often fail to credit female entrepreneurs as co-developers of the entrepreneurial domain, or recognize how shifts in gendered roles and identities moderate relationships between sex and entrepreneurial career choices (Eagly & Diekmann, 2003; Lewis, 2006). Factors contributing to gendered roles are often discussed in the entrepreneurship literature (Lombard, 2001; Boden, 1996, 1999; McManus, 2001; Burke et al., 2002; Twenge, 2001). Studies of gender differences in human capital (Fischer et al., 1993), financial capital (Coleman, 2000; Djankov et al., 2007; Stel et al., 2007) and social capital (de Bruin et al., 2007; Jack & Anderson, 2002) to date provide conflicting or marginal explanations for the gender gap (Brush, 1992; Dias-Garcia & Jimenez-Moreno, 2010; Watson, 2006; Greene, 2000; Arenius & Minniti, 2005).

A possible reason for conflicting or marginal explanations of the gender gap is that the psychological tendencies (Burke et al., 2002; Jianakoplos & Bernasek, 1998), prior experiences and life situations (Lombard, 2001; Boden, 1996, 1999; McManus, 2001) that influence the probabilities that men will enter entrepreneurship also influence the probability of entrepreneurial entry among women (Arenius & Minniti, 2005; Langowitz & Minniti, 2007; Powell, 2010). Another possible reason suggested by Verheul and colleagues (2006) from their GEM study of 29 countries is that the macro factors that influence the number of female entrepreneurs in a country differ from the macro factors that influence the share of female entrepreneurs in comparison to their male counterparts. For instance, Coleman (2007) found the access to external sources of capital to have a positive impact on the profitability and growth of male-led firms but did not appear to affect female-led firms in an equivalent manner.

The cumulative findings of studies of the gender gap appear to suggest that female entrepreneurs do encounter barriers to entry, growth and venture survival in many countries (Minniti, 2009; Fairlie & Robb, 2009; Kanter, 1977). Female entrepreneurs have to fight an uphill battle that contributes to their remaining a minority presence in the global entrepreneurial economy (Reynolds et al., 2005). Arguably then, female entrepreneurs may be able to call upon the coping approaches and tactics used to negotiate the stigma encountered at earlier stages of the entrepreneurial process to overcome the stigma of entrepreneurial failure (cf. Miller & Kaiser, 2001; Shih, 2004). There is some support for this argument in the extant literature. Using a student sample, Gupta and colleagues (2008) found that differences in the entrepreneurial intentions of males were greater than females in non-stereotyped entrepreneurship contexts (i.e. successful ventures), and that the gender gap narrowed in gender-neutral stereotyped entrepreneurship contexts (i.e. failed ventures).

In short, liberal feminist views of entrepreneurship suggest that women do not have equal access to entrepreneurial opportunities (Fischer et al., 1993; Welter, 2004) and that gender influences the capitalization of entrepreneurial firms and the growth strategies of female founders (Alsos et al., 2006). The conclusion that I draw from my research is that the gender influences the stigma that entrepreneurs can be subjected to at various stages of the entrepreneurial process (Settles, 2004; Ruderman et al., 2002). Accordingly, considerations of stigma attitudes and sanctions may provide additional insights that depart from earlier findings in the literature that the entrepreneurial intentions of male and female entrepreneurs had the same antecedents (Lefkowitz, 1994; Langowitz & Minniti, 2007), or that the influence of non-pecuniary factors on entrepreneurial intentions is lower for male entrepreneurs (Burke et al., 2002).

## 2.12 Summary

Chapter 2 has outlined the theoretical framework for Studies 1, 2 and 3. As each study is discussed in the chapters that follow, I will expand upon the literature review to support specific propositions and hypotheses. Chapter 3 will expand upon how and when regulatory fit increases or decreases the motivation for entrepreneurial engagement subsequent to harvest and distress exits. Chapter 4 will expand upon the different institutional contexts of stigma and regulatory disclosure of business failure, and discuss the implications of each context for entrepreneurial acts, modes and manners of organizing re-entry. Finally, Chapter 5 will expand upon the discussion of the gender gap, focusing on the re-entry of entrepreneurs after business failure, and examining how different institutional contexts of stigma and regulatory disclosure may influence the gender gap.

## **CHAPTER 3: REGULATORY FIT OF BUSINESS EXITS**

### 3.1 Introduction

Study1 presents an interesting application of regulatory focus theory and a novel extension of regulatory fit theory to the context of serial entrepreneurship. This Chapter will develop testable propositions for Study 1 regarding cognitive facets of business re-entry subsequent to harvest and distress exits.

Entrepreneurial cognition is “the knowledge structures that people use to make assessments, judgment or decisions involving opportunity evaluation and venture creation and growth” (Mitchell, Busenitz, Lant et al., 2002, p. 97; Shepherd & Krueger, 2002). Self-regulation is viewed as an important aspect of entrepreneurial cognition (Bandura, 1997). Regulatory Focus Theory (Higgins 1997, 1998) provides insights into the prevention- and promotion-focused self-regulation in which all individuals engage to some degree during goal pursuits. Regulatory Focus Theory suggests that the cognitive process used to make decisions moderates how the decision costs and benefits are weighed (Lieberman et al., 2001; Crowe & Higgins, 1997). As an extension of Regulatory Focus Theory, Regulatory Fit Theory provides insights into how the fit (or non-fit) of cognitive process to the outcomes of goal pursuits can have positive or negative effects on motivation and engagement (Higgins, 2000, 2005, 2006). Such effects are demonstrated in the literature to be independent of mood and other psychological or contextual variables (Higgins, Idson, Freitas, Spiegel & Molsen, 2003). The insights from both theories suggest that entrepreneurs would extract the maximum value from business exits, in terms of their motivation to engage in entrepreneurship, when there is a regulatory fit of the exit process and outcome.

### 3.2 Harvest Exits, Regulatory Fit and Entrepreneurial Engagement

To harvest is to “realize some portion of the firm’s wealth creation” (Wennberg et al., 2010, p. 364). The numbers of entrepreneurs with harvest exit strategies to capitalize on the unrealized equity in a venture has been increasing over the years (Valery, 1999). From a hedonic perspective, the harvesting of the gains in a venture can be characterized as a promotion-focused goal pursuit because of the investment risks (Zhou & Pham, 2004) and uncertainties (Lieberman et al., 1999) that may be involved in the process. The larger option sets of the harvest contexts, however, allow for search patterns that fit either eager or vigilant approach preferences (Pham & Chang, 2009). Accordingly, harvest exits can be structured either with the promotion-focused strategic goal of attaining gains (bigger opportunities) or the prevention-focused strategic goal of avoiding losses (recognition of built-in gains).

It is intuitive to expect that promotion-focused entrepreneurs would experience “feeling right” about the harvest exit signals and processes. An example of a harvest exit that is promotion-focused is provided by the vignette below, which is an actual blog from the internet website of the owner of a music magazine. The name of the company and other identifying information are removed.

I’m very proud of that fact that [my company] (in its own humble way) has truly made a real difference in the lives and careers of thousands of musicians and music people all over the world. Even so, in the past few years I have felt closed in, trapped and consumed by my own creation. There are so many opportunities that have come my way over the years and so many ideas that I’ve wanted to pursue and develop. However, I have always felt locked and shackled to the one creation that has made me a good living for so many years.

This entrepreneur’s blog demonstrates a promotion-focused exit from a successful business to pursue other goals, as opposed to loss prevention. Pham and Chang (2009) investigated the role of promotion- and prevention-focused regulatory states on the search for and consideration

of choice alternatives. Consistently with earlier studies, Pham and Chang demonstrate that promotion-focused participants attached more value to choices made from larger option sets that allow them to use global search patterns that fit their eager approach preferences. Accordingly, my first proposition is that for promotion-focused entrepreneurs, the motivation to harvest gains from future ventures should intensify because of the regulatory fit of the success feedback from the harvest exit (Idson et al., 2000).

**Proposition 1:** When the strategic goal of a harvest exit is to attain gains (bigger opportunities), repeat entrepreneurial engagement is more likely to occur for entrepreneurs who are in either a chronic or situation activated promotion-focused regulatory state.

Less intuitive is the prediction that prevention-focused entrepreneurs would also experience “feeling right” about harvest exit processes and signals (although probably to a lesser extent). This second prediction, although less intuitive, is supported by the findings of experimental studies in the consumer research literature. For prevention-focused entrepreneurs, there are two suggestions in the literature with respect to the effects of success and failure feedback on their motivation intensity. The first is that their motivation for a promotion-focused goal pursuit should decrease with the success feedback (Idson et al., 2000). This is because of the non-fit of the goal pursuit to their vigilant avoidance concerns. Hence, although prevention-focused entrepreneurs are likely to feel right about harvesting, this experience will probably not intensify the vigilant avoidance concerns that motivate their goal pursuits.

The other suggestion in the literature, however, is that persons in prevention focus with subjective histories of success with promotion-focused goal attainment strategies will orient themselves toward using strategic attainment approaches in future goal pursuits (Higgins, Friedman, Harlow et al., 2001). This suggestion by Higgins and colleagues is consistent with research that indicates that entrepreneurs who succeed arguably develop efficacy beliefs that



contribute to their success in future ventures (Stuart & Abetti, 1990; Gimeno et al., 1997). In comparison to regulatory focus, self-efficacy measures the individual's level of confidence in achieving the goal rather than the achievement of the goal itself (Bandura, 1997). Experiments by Crowe and Higgins (1997) demonstrate the correlation between self-efficacy and regulatory focus and show the tendencies of persons with high perceived self-efficacy to be promotion-focused, and those with low perceived self-efficacy to be prevention-focused. In other words, the more prevention-focused persons engage in goal pursuits that are successful at gain attainment, the more oriented they become to approaching future goal pursuits with promotion-focused strategic means.

An example of a harvest exit process that is prevention focused is provided by the following vignette developed from a 2011 Entrepreneur.com interview. The entrepreneur founded and sold a two-year-old startup company:

I ended up selling after 24 months of operation – much earlier than many friends and colleagues expected. I sold for a price that I describe as “I don't have to work for a while, but I will have to work again someday.” It was certainly short of anyone ever knowing my name. People ask me why I sold so soon. The answer is simple: math. What I realized is that basic principles of financial analysis evaporate when founders need to decide whether to sell or compete. Maybe it's the hype and egos associated with the acquisition environment, which is a place where dreamers chase big numbers and losers go unnoticed. But it's more likely that nobody really does any math.

The promotion-focused entrepreneur in the first vignette enacted a harvest exit in pursuit of other lucrative opportunities. In this second vignette, the prevention-focused entrepreneur enacted a harvest exit to recognize the unrealized gains within the venture to avoid future losses. The differences in the signaling and consideration of alternatives in the two vignettes, however, should not decrease the likelihood of either entrepreneur being motivated to engage in entrepreneurship subsequent to the harvest exit. Rather, for harvest exits, there is a high likelihood of increased motivation, irrespective of the promotion or prevention focus of the

entrepreneur. This prediction is supported by Pham and Chang's (2010) finding that the effects of a larger option set are asymmetrical. In particular, they found that prevention-focused participants did not attach lesser value to choices made from larger option sets. Rather, the larger option set allowed prevention-focused participants to use localized search patterns that fit their preference for recognizing built-in gains. Accordingly, the next proposition states:

**Proposition 2:** When the strategic goal of a harvest exit is to prevent losses (recognition of built-in gains), repeat entrepreneurial engagement is more likely to occur for entrepreneurs who are in either a chronic or situation activated prevention-focused regulatory state.

### 3.3 Distress Exits, Regulatory Fit and Entrepreneurial Engagement

Distress exits provide less opportunity for entrepreneurs to feel right about exiting their businesses. Promotion-focused entrepreneurs are likely to feel wrong about exiting because of their heightened expectancies for gain attainment and low motivation towards goal pursuits aimed toward recovering sunk costs (Higgins & Tykocinski, 1992; Higgins, 2000; Brockner et al., 2004). On the other hand, the loss orientation of the distress exit is a regulatory fit to the heightened expectancy that prevention-focused entrepreneurs have for the preservation of their capital and sunk costs (Higgins & Tykocinski, 1992; Higgins, 2000). Yet, there are two reasons why prevention-focused entrepreneurs are also likely to feel wrong about distress exits.

The first is that the context of the distress exit is negative. Regulatory fit intensifies the heightened sensitivity of prevention-focused entrepreneurs to the presence of losses in the negative context of the distress exit (Pham & Avnet, 2009; Higgins & Tykocinski, 1992; Halamish, Liberman, Higgins & Idson, 2008). The second is that prevention-focused entrepreneurs have a heightened sensitivity to the negative social interactions that would be entailed in a distress exit (Fitzsimmons & Finkel, 2010; Higgins, Roney, Crowe & Hymes, 1994; Molden & Finkel, 2010). Because businesses are embedded in social relationships (Bandura,

1997) entrepreneurs can be stigmatized by distress exits (Goffman, 1963). Complying with normative expectations is a conservative prevention-focused tactic (Zhang, Higgins & Chen, 2011; Gailliot, Stillman, Schmeichel et al., 2008; Lynch, Eisenberger & Arneli, 1999; cf. Langens, 2007). Compliance with stigma sanctions however will probably contribute to prevention-focused entrepreneurs feeling wrong about distress exits.

In short, the “feeling wrong” experience from the “regulatory non-fit” of promotion entrepreneurs to distress exits is distinguishable from the “feeling wrong” experienced by prevention-focused entrepreneurs from the “regulatory fit” in the negative context of a distress exit. Albeit for different reasons, both promotion- and prevention-focused entrepreneurs are likely to feel wrong about distress exits. Proposition three states:

**Proposition 3:** Entrepreneurs in either promotion- or prevention-focused regulatory states are likely to feel wrong about a distress exit.

Although both promotion- and prevention-focused entrepreneurs will arguably feel wrong about a distress exit, individuals in promotion focus are more likely to persist for longer at difficult tasks to insure against omission errors, while individuals in prevention focus are more likely to quit difficult tasks in order to avoid commission errors. These effects on motivation intensity from regulatory non-fit have been the research focus of a number of recent articles (Higgins & Scholer, 2009; Lee, 2009), and the empirical evidence on how and why this valuation transfers to the outcome from goal pursuits is still emerging (Avnet & Higgins, 2003). However, the evidence in the extant literature does suggest that “promotion-focused” entrepreneurs would view distress exits as interferences or obstacles to overcome (Higgins & Scholer, 2009; Lee, 2009; Pham & Avnet, 2009; Crowe & Higgins, 1997).

The following vignette illustrates a promotion-focused entrepreneur (Harry) who discusses his failure as obstacle to be overcome in his entrepreneurship career. The vignette is an excerpt

from a 2008 Businessweek.com article about entrepreneurs who turn failure into success. Harry is a penname.

Part of the trauma of Harry's failure was that it came on the heels of spectacular success. "It was an incredibly emotional rollercoaster," says Payne. "I went from, 'Omigod, this thing is going to Mars,' to 'Omigod, I am going out of business tomorrow.'" The company conducted a fire sale of its assets and technology. It was a valuable lesson learning that you can take on a project and it can fail, but that doesn't mean that everybody you worked with is going to deem you a personal failure and never want to see you or work with you again," Harry says. "You're going to be judged by how you carry yourself through the experience. Not necessarily the outcome."

Harry's fire sale was a distress exit. He does not view the liquidation of his business as an exit from entrepreneurship, but rather as a learning lesson. Harry also views the distress outcome as distinct from the process of exiting under distress. His statements are consistent with the conclusions of Crowe and Higgins (1997) that individuals in promotion focus are more likely to persist longer at difficult tasks to insure against omission errors. Hence, drawing on the findings and examples discussed above, my suggestion is that distress exits motivate promotion-focused entrepreneurs to ensure against omission errors by increasing their entrepreneurial engagement.

The next proposition states:

**Proposition 4:** Although the strategic goal of the distress exit is to prevent losses, repeat entrepreneurial engagement is more likely to occur for entrepreneurs who are in either a chronic or situational activated promotion focus regulatory state.

For prevention-focused entrepreneurs, the feeling wrong experience arises from the negative context of distress exits, which intensifies the negative value of undesired goal pursuits; the non-fit of the distress exit process represents "a nuisance to cope with" (Higgins & Scholer, 2009; Lee, 2009). Because of their sensitivity to negative outcomes, the goal pursuits of prevention-focused entrepreneurs are motivated by the need to avoid losses. Accordingly, the strategic goals of distress exits fit the regulatory state of prevention-focused entrepreneurs. The

quandary, however, is that the distress exit is a negative outcome for entrepreneurs and the relevant question to ask is whether prevention-focused entrepreneurs will increase their motivation to become successful entrepreneurs subsequent to a distress exit or whether their sensitivity to negative outcomes will call into question their career choices as entrepreneurs.

Pham and Avnet (2009) suggest that a regulatory fit in a negative context intensifies the negative value of undesired goal pursuits. The following vignette is presented as an illustration of a prevention-focused entrepreneur, who discusses her prior entrepreneurial experience as a nuisance to cope with. The vignette is an excerpt of a 2011 blog entry from Susan, an entrepreneur who exited her business. Susan is a penname.

There are lots of reasons for doing it. For me, I enjoy being part of something bigger than myself. I like having access to resources that I might not otherwise have. I get a thrill from collaborating with a team. And, you know what? I hate bookkeeping, I can't stand chasing down invoices, and when I knew I had grown my business to the point where I needed to hire people... I can honestly say I wasn't ready for that. If you're a freelancer or entrepreneur considering returning to the more traditional workforce, look at any job opportunity as a merger and acquisition... not a liquidation of assets.

In the above vignette, Susan appears to feel right about her business exit. I make the assumption that the business was unsuccessful because the circumstances of the exit are not definitively described in the blog. Susan's references to accessing 'resources other than her own' and being part of something 'bigger than herself,' are indicative of the non-loss and conservative goals of prevention-focused regulatory states. Susan's response to the business exit provides an example of how entrepreneurs can feel right about distress business exits and at the same time decrease future entrepreneurial engagement to ensure against commission errors. Because the feeling wrong experience that arises from the negative context of distress exits can intensify the negative value of prevention-focused goal pursuits, I propose that prevention-focused

entrepreneurs will be less likely to engage in repeat entrepreneurial activity. The next proposition states:

**Proposition 5:** Although the strategic goal of the distress exit is to prevent losses, repeat entrepreneurial engagement is less likely to occur for entrepreneurs who are in either a chronic or situation activated prevention-focus regulatory state (regulatory fit – in future avoid commission).

### 3.4 Discussion

Entrepreneurs not only learn from their real experiences (Sarasvathy, 2001); they intentionally adapt their behaviors in future entrepreneurial activities in the basis of biased judgments of positive or negative events (March & Olsen, 1975). This feedback loop in the learning process occurs regardless of whether they exit their ventures through harvest or distress exit routes (Minniti & Bygrave, 2001). Because entrepreneurs use their subjective perceptions of events to revise assumptions regardless of the “actual” reason for the exit, it is their subjective perceptions that influence their future entrepreneurial activity (Wiklund & Shepherd, 2008; Politis, 2008).

When entrepreneurs feel right about business exits, they are more likely to feel confident about prior judgments and are less likely to question whether their prior judgments were accurate. Furthermore, when entrepreneurs feel wrong about business exits, there can be an added value of encouraging them to correct inaccurate prior judgments in subsequent goal pursuits (Vaughn, O’Rourke, Schwartz et al., 2006). Accordingly, success and failures in prior goal pursuits influence not only when and how entrepreneurs learn from entrepreneurial exits, but also whether they will approach or avoid new goal pursuits (Higgins, Friedman, Harlow et al., 2001).

Regulatory focus theory, and in particular regulatory fit, provides insight into how and when the messages or signals from harvest or distress exits are likely to diminish, maintain,

induce or intensify the goal pursuits of entrepreneurs (Grant, Idson & Higgins, 2001). Success and failure are two different performance outcomes that can both motivate serial entrepreneurship (Gimeno, Folta, Cooper & Woo, 1997). Yet there is an assumption in the literature that success increases the likelihood that entrepreneurs will engage in promotion-focused goal pursuits because of increased expectations, and that failure increases prevention-focused goal pursuits by lowering expectations (Forster, Grant, Idson & Higgins, 2001).

As demonstrated by research in the cognitive psychology literature, success and failure are independent of the self-regulatory systems of entrepreneurs (cf. Shah & Higgins, 1997; Shah, Higgins & Friedman, 1998). The implications of this independence is that entrepreneurs can be pushed towards or pulled away from future entrepreneurial engagement after exiting both financially viable and unviable businesses.

## **CHAPTER 4: STIGMA AND BUSINESS EXITS: IMPLICATIONS FOR ENTREPRENEURS' CAREER CHOICES – STUDY 2**

### 4.1 Introduction

The focus of Study 2 is on how stigma at the macro level influences the behavior of entrepreneurs who are stigmatized at the micro level. Specifically, it asks: how are the future career decisions of failed entrepreneurs influenced by variations across countries in negative attitudes and formal regulatory laws, policies, and procedures that disclose information about prior exits from failed businesses? Building upon the insights of literatures on organizational legitimacy and the social deviance of individuals and organizations, it develops a theoretical model of career responses to the stigma of entrepreneurial failure and tests it across the re-entry decisions of 2,607 failed entrepreneurs situated in 23 countries from the Global Entrepreneurship Monitor (GEM) study. Eurobarometer national data on negative attitudes towards failed entrepreneurs, and World Bank indicators of variations in the extent of business disclosure across countries, is employed. The hypotheses are tested using logistic regression analyses, adjusted for national-level cluster effects. The conceptual model and empirical findings are indicative of the important linkages that can be drawn between the level of formal controls over stigma visibility that exist in a country and the micro-level strategic responses of individual entrepreneurs who exit failed businesses.

### 4.2 Strategic Responses to Stigma by Failed Entrepreneurs

In order for a failed entrepreneur to be stigmatized, a critical mass of individuals must agree that entrepreneurial failure is illegitimate, and they need to associate the inappropriate behavior with that entrepreneur (Hudson, 2008). In other words, the behavioral responses of failed entrepreneurs are a function of the stigma associated with entrepreneurial failure as well as



the communication of that information. Thus, there is an interaction between cultural attitudes that result in a loss of legitimacy for failed entrepreneurs and the regulatory environments that provide individual-level information about prior failure (Ragins, 2008). It is this combined effect to which failed entrepreneurs need to respond (Semandeni et al., 2008).

There are a range of behavioral responses open to failed entrepreneurs. Oliver's (1991) typology of strategic responses of organizations to institutional pressures provides insight into the influence of context and control on strategic responses to institutional pressures of stigma. The typology identifies theoretical mechanisms that drive strategic responses, and these mechanisms are also likely to be generally applicable to the behavior of individual entrepreneurs. There are five categories of strategic responses that organizations – and entrepreneurs – could make in response to institutional pressures: acquiescence, compromise, avoidance, defiance, and manipulation. These responses vary in terms of degree of active agency and the tactics exerted, “from conforming to resistant, from passive to active, from preconscious to controlling, from impotent to influential, and from habitual to opportunistic” (p. 151). This typology also resonates with discussions of stigma-coping approaches developed in the literature (Miller & Major, 2000). Importantly, Oliver notes that these strategic responses are a function of the institutional pressures exerted on organizations and the extent to which they can control the environment. Building on Oliver's framework, I now develop a typology of failed entrepreneurs' responses to the stigma of failure. The typology consists of four scenarios arranged across two dimensions: high and low prevalence of negative cultural attitudes towards failed entrepreneurs; and high and low visibility of information about prior failures in the entry environment. I discuss each quadrant in turn and present the associated hypotheses.

#### 4.2.1 High-Stigma and High-Visibility Context

High stigma in a country paired with ample access to information about business failure represents a scenario that hits failed entrepreneurs the hardest, and pressures them into an acquiescent response. People in such countries are generally unforgiving of failed entrepreneurs, and associate exits from failed businesses with illegitimate behavior. Furthermore, substantial information about the failed business and the link between the individual entrepreneur and the failed business is stored and easily available to stakeholders. Thus, failed entrepreneurs can be substantially stigmatized. In terms of responses, Miller and Major (2000) note that when individuals who are stigmatized perceive their control over the visibility of their stigmata to be low, their coping approaches are likely to involve tactics to escape or disengage from the stigma of the failed business. Failed entrepreneurs who were once legitimate in their countries may find themselves stereotypically grouped with illegitimate entrepreneurs who are afforded less access to the human, social and financial capital that are important to the survival and performance of their businesses. Such entrepreneurs may perceive this illegitimacy, which is based on a diminished social rather than personal identity, to be dehumanizing (Crocker et al., 1998). In such cases, I argue that the dramatic response would be a permanent exit from entrepreneurial activity, because this is the domain where the institutional pressures exist (Oliver, 1991; Meyer & Rowan, 1977; Hirschman, 1970). Similar responses have been documented in the stigma literature, for example, on stigmatized criminals (Rasmussen, 1996).

In other words, I propose that institutional contexts with more prevalent negative cultural attitudes towards failed entrepreneurs and high visibility of information about prior failures in the entry environment are more likely to lead entrepreneurs to acquiesce and exit entrepreneurship altogether. Oliver (1991) identifies two mechanisms that are likely to lead to

acquiescence. The first involves unconscious agreement with conventions and customs because they are deeply engrained in society. This mechanism drives failed entrepreneurs to internalize the general opinion that entrepreneurial failure is illegitimate and imitate the stigma given to them. In order to wash away the stigma, they distance themselves from entrepreneurship and seek out some other career. The other mechanism associated with acquiescence is the conscious strategic choice of compliance. Because ample information is available about individuals who fail and because entrepreneurial failure is stigmatized, failed entrepreneurs are likely to face problems, for example when negotiating with resource providers. As a result, the entrepreneur may comply and exit entrepreneurship to pursue another career that presents more attractive opportunities. The first hypothesis therefore states:

**Hypothesis 1:** The likelihood that failed entrepreneurs will be engaged in entrepreneurship activity is lower in institutional contexts with high stigma and high visibility of information about prior failures in the entry environment.

#### 4.2.2 High-Stigma and Low-Visibility Context

In the scenario of high stigma and low stakeholder access to information about exits from failed businesses, entrepreneurs are still at risk of being stigmatized but can possibly avoid the detection of their business history. Because information about the failure is not readily available to everybody, some control over its visibility shifts from the institution to the entrepreneur. Thus, entrepreneurs can better influence and control re-entry than in the high-visibility context discussed in Section 3.4. Specifically, low levels of institutional control over the recording and dissemination of information about prior exits from failed businesses provide opportunities for entrepreneurs to avoid the stigma responses of stakeholders and to negotiate their re-entry.

Buffering is an avoidance tactic that “refers to an organization’s attempt to reduce the extent to which it is externally inspected, scrutinized, or evaluated” (Oliver, 1991, p. 155). It has

been noted in the literature that the level of stigma that is transferred between a failed organization and its leaders depends on proximity in terms of time and space (Semadeni et al., 2008). Accordingly, measurable variations may exist in the timeframe and occurrences of failed entrepreneurs who subsequently regain legitimacy (Wiesenfeld et al., 2008). Information repositories and the information they convey about prior failures are likely to decay in a shorter time-frame in contexts where there is less institutional control. Therefore, as an alternative to concealment, another compromised mode of re-entry is for entrepreneurs to regulate their stigma by deferring their return to entrepreneurship. The next hypothesis states:

**Hypothesis 2:** The likelihood that failed entrepreneurs will defer re-entry is greater in institutional contexts with high stigma and low visibility of information about prior failures in the entry environment.

Avoidance represents a generic strategic response to institutional pressures in situations where organizations have some control over information about their behavior, but there is little possibility to influence the institution *per se* (Oliver, 1991). Two foreseeable avoidance tactics that may be used by failed entrepreneurs are concealment and buffering. Concealment tactics “involve disguising nonconformity behind a façade of acquiescence” (Oliver, 1991, p. 154). Failed entrepreneurs are more likely to be stigmatized in contexts where information about prior failed ventures is widely available. For this reason, when entrepreneurs can, at least in part, control this information, it may be in their own best interest to conceal any failed entrepreneurial activities. One way for entrepreneurs to conceal the stigma attached to prior business failure is by opting for multiple-owner re-entry (i.e. startups with founding teams) as opposed to single-owner re-entry (i.e. startups with the failed entrepreneur as sole owner). This leads to the following hypothesis:

**Hypothesis 3:** The likelihood that exited entrepreneurs will engage in solo owner autonomous startup activity is lower in institutional contexts with high stigma and low visibility of negative information about prior entrepreneurial activity.

#### 4.2.3 Low-Stigma and High-Visibility Context

In countries where entrepreneurial failure is not severely stigmatized but there is ample information about exits from failed businesses, failed entrepreneurs are likely to pursue compromise-based tactics to balance, pacify or bargain with stakeholders (Oliver, 1991). Such responses are only possible when there is some flexibility in attitudes towards members of the stigmatized group. Low-stigma contexts imply that constituents view some aspects of the failure experience positively. Because of the opportunity to compromise with stakeholders, failed entrepreneurs are likely to continue to pursue entrepreneurial careers. The high visibility of prior failures nonetheless exerts pressures on failed entrepreneurs to pursue entrepreneurial careers in domains that are less associated with their stigmatized history. This suggests the following hypothesis:

**Hypothesis 4:** The likelihood that re-entering failed entrepreneurs will engage in startup activity as corporate employees is greater in institutional contexts with low stigma and high visibility of information about prior failures in the entry environment.

#### 4.2.4 Low-Stigma and Low-Visibility Context

Low-stigma and low-visibility contexts provide failed entrepreneurs with the most leeway because of lack of pressure to conform. This is not to say that entrepreneurial failure is not stigmatized, but rather that the enforcement of sanctions is not severe. In such contexts one would expect either defiant responses or those that dismiss or challenge stigma. Defiant responses “represent unequivocal rejections of institutional norms and expectations” (Oliver, 1991, p. 157). The challenge tactic reflects a dramatic divergence from social norms, even in the

face of high sanctions. While the dismissal tactic is also a divergence, it is more likely to be used when the costs associated with nonconformity are low. For instance, where the act of entrepreneurship is viewed positively, failed entrepreneurs are likely to face limited sanctions if they decide to re-enter. In such contexts, entrepreneurs may view failure as a badge of honor.

Landier (2005), for example, quotes an engineer in Silicon Valley in the United States who states: “here in Silicon Valley, [failure] is the mark of the entrepreneurial spirit (p. 24).”

However, although the stigma of failure is low in the United States, the high level of available information about business failures in the entry regulatory environment still represents a form of institutional pressure on entrepreneurs who exit failed businesses (World Bank Doing Business Report, 2011). In other words, while stigma from failure is less likely to occur in Silicon Valley, the high institutional control over disclosure in the United States discourages acts of defiance or dismissal in those incidences where stigma of the business exit does occur. Accordingly, I argue that the willingness of failed entrepreneurs to defy or dismiss the stigma of failure will be higher in countries where fewer people stigmatize failure; and also, there is low institutional control over the visibility of exits from failed ventures. This leads to the following hypothesis:

**Hypothesis 5:** The likelihood that failed entrepreneurs will engage in subsequent autonomous startups is greater in institutional contexts with low stigma and low visibility of information about prior failures in the entry environment.

## 4.3 Methods

### 4.3.1 Dataset

This study utilizes a unique combination of data from GEM, World Bank and European Union Flash Barometer (FB). The sample is selected from a cross-country pool of individuals interviewed during the 2006–2009 fieldwork of the GEM project. The GEM Project is an ongoing study that started in 1999 with the aim of measuring cross-national entrepreneurial

activity (Reynolds et al., 1999). The GEM respondents in each country were randomly selected from the general population and interviewed about their entrepreneurial attitudes, intentions and activities. In order to derive the country-level variables of stigma sanctions and the disclosure of prior business failures in entry-regulatory environments, the GEM data are combined with the World Bank Development Indicators (WDI) and the European Commission Flash Barometer. Complete data were then available for the following 23 countries: Belgium, Croatia, the Czech Republic, Denmark, France, Finland, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Netherlands, Norway, Portugal, Romania, Slovenia, Spain, Sweden, Turkey, the United Kingdom and the United States.

I adopted the approach of Kwon and Arenius (2010) and pooled the GEM data collected from the respondents in each country across the four-year period from 2006 to 2009 to increase the stability of the measures. I then limited the sample to include only failed entrepreneurs. I relied on a delimitation of failed entrepreneurs that includes only those GEM respondents who had shut down, discontinued or quit a venture in the past 12 months. I identified and excluded those respondents who exited through means of a sale, advanced planning, retirement, or to pursue another job or business opportunity. The sample identifies those respondents who shut down, discontinued or quit a venture because of too much competition, lack of customers or profit, financing problems, incidents or other reasons.

This view of failure is advantageous because legal frameworks differ substantially across countries, so that in many contexts exit routes other than bankruptcy are preferred for failed entrepreneurs. Entrepreneurs who shut down, discontinue or quit an unsuccessful business have the potential to be stigmatized in their countries (Graham, 1992). A total of 2,607 GEM respondents between the ages of 18 and 64 from the 23 countries corresponded to these criteria. I

then removed portfolio entrepreneurs, i.e. individuals who were running another business at the time they shut down the business, on the grounds that the failed business is likely to be less significant to these individuals than to a single-business entrepreneur. This produced a final sample of 2,607 failed entrepreneurs.

#### 4.3.2 Dependent Variables

I analyzed the influence of stigma and the regulatory conveyance of stigma on entrepreneurship exit, sole-owner startup, deferred re-entry intention and re-entry as employees or owners of autonomous start-ups. I used five binary dependent variables from the GEM data. These variables enabled us to unlink the act of re-entry into entrepreneurship from the mode of re-entry and form of organizing the re-entry. The *Early Re-entry* dependent variable measures whether the GEM respondents I identified as failed entrepreneurs are engaged in nascent or new entrepreneurial activity. The variable was constructed from three GEM variables: (1) individuals who are, alone or with others, currently trying to start a new business, including any self-employment or selling any goods or services to others; (2) individuals who are, alone or with others, currently trying to start a new business or a new venture for their employer as part of their normal work; and (3) individuals who currently manage and own a business (a “baby business”) that is up to 42 months old. The *Late Re-entry* dependent variable measures whether the failed entrepreneurs are “alone or with others, expecting to start a new business, including any type of self-employment, within the next three years”. Some of the failed entrepreneurs engaged in nascent or new entrepreneurial activity also confirmed that they are expecting to start a business in the next three years. To resolve this duplication, the Late Re-entry variable was coded as 0 for respondents who are (1) actively involved in start-up effort as owner, no wages yet; (2) manage and own a business that is up to 42 months old; or (3) business owners of running businesses.



The next two dependent variables examine the modes of entrepreneurship re-entry: whether the entrepreneurship activity undertaken by the GEM respondents was in the mode of corporate re-entry or autonomous re-entry. *Corporate Re-entry* indicates respondent answers to the question “you are, alone or with others, currently trying to start a new business or a new venture for your employer as part of your normal work.” *Autonomous Re-entry* indicates respondent answers to the question “you are, alone or with others, currently the owner of a company you help manage, self-employed, or selling any goods or services to others.” The aggregate of these two variables equates the entrepreneurship re-entry dependent variable. The final dependent variable is *Sole Owner Re-entry*. This variable examines whether the mode of organizing the re-entry business was as a solo member re-entry or a multiple team member re-entry. The variable indicates whether the re-entry business had a sole owner (1) or multiple owners (0).

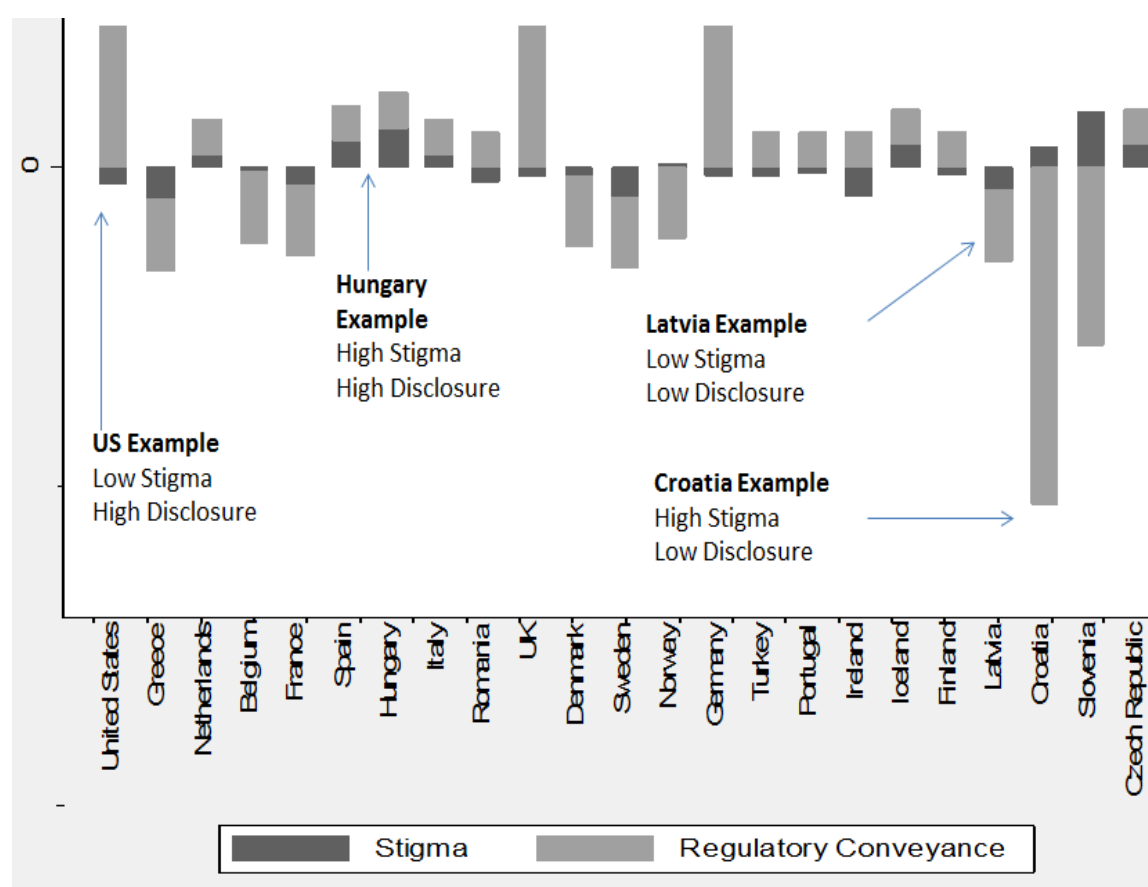
#### 4.3.3 Explanatory Variables

There are two explanatory stigma variables. The first explanatory variable, *Stigma*, is constructed from survey data collected for the European Commission on attitudes towards entrepreneurship (Gallup, 2010). This variable measures the percentage of responses to the statement, “people who have started their own business and have failed should be given a second chance” that were strongly agree, agree, don’t know, disagree and strongly disagree. Using a (-2, 2) scale, I weighted the response categories and assigned positive values to the negative social judgments about giving failed entrepreneurs a second chance and vice versa.

The second explanatory variable, *Regulatory Conveyance of Stigma*, is constructed from World Development Indicators (WDI) collected as part of the ongoing World Bank Doing Business project that collects data on regulations governing small and medium-sized business operating in 183 economies (World Bank, 2010). The WDI indicator used to construct the

Regulatory Conveyance of Stigma variable measures the depth of credit information about individuals and firms that are available through public and private credit registries on a 0–6 scale. More specifically, this indicator reports whether the positive or negative data on firms and individuals are communicated; to whom the information is reported; the age of the information; and the opportunities for borrowers and capital providers to inspect the information. Figure 6 presents an illustrative graph of the mean standardized distance in stigma (years 2007–09) and regulatory conveyance of stigma (years 2005–08) for each country in the study.

**Figure 6** Institutional Contexts of Study Countries



Mean Distances for Stigma and Regulatory Conveyance (2005–09 timeframes)

#### 4.3.4 Control Variables

It is important that I include individual and country-level control variables that are correlates of entrepreneurial behavior in the analysis (Davidsson & Honig, 2003; Stam et al., 2008). On the individual level, I include GEM measures of the respondent's Age, Gender and Startup Skill at the time of the GEM interview. These variables provide measures of explicit human capital (Langowitz & Minniti, 2007; Wiklund & Shepherd, 2008; Gimeno et al., 1997). Age Squared was also included in the model because of the curvilinear effect of age on increasing human capital through accumulated life experiences and decreasing human capital due to loss of stamina and risk aversion (Wennberg et al., 2010). On the country level, I include a GEM measure of the National Fear of Failure and WDI measures of the Time to Resolve Insolvency and GDP Per Capita Growth. I include these variables because prior studies have found a systematic relationship between the size and dynamics of the entrepreneurial economy and the levels of entrepreneurial activity in countries (Acs et al., 2005; Armour & Cumming, 2008). Table 1 provides a description of the explanatory and control variables in the study.

#### 4.4 Results

On the basis of level of stigma and visibility of information I developed and tested a theoretical model outlining the behavioral options open to failed entrepreneurs and the mechanisms that drive failed entrepreneurs to choose different career options. To date, most theorizing and discussion of the stigma of entrepreneurial failure has been limited to assuming that entrepreneurs acquiesce to institutional pressure. I suggest that depending on level of stigma and visibility of information, entrepreneurs are more or less likely to rely on concealment, buffering, compromise and defiance tactics. This fine-grained model of responses to the stigma

of failure provides valuable theoretical refinement to the understanding of the stigma of failure. I now discuss the results and their implications in greater detail.

#### 4.4.1 Descriptive Statistics

The descriptive statistics for the study variables are shown Table 2. In the sample of 2,607 failed entrepreneurs, 24% were engaged in early stage entrepreneurial activity, split into 10% corporate re-entry and 14% autonomous. Sole owners were 10% of the total sample. Lastly, 16% reported deferred intentions to engage in entrepreneurship activity. Four out of five (79%) of the respondents agreed they had the skill, knowledge and experience to start a new venture. On the national level, the mean GDP annual growth per capita was positive for this group of countries; the mean national fear of failure rate was 34% of the population; and the mean time to resolve insolvency exceeded 1.85 years.

#### 4.4.2 Logistic Regression Models

I hypothesized the effects of stigma and the regulatory conveyance of stigma on the act of entrepreneurship (i.e. re-entry and deferred re-entry), the mode of re-entry (i.e. autonomous startup versus corporate employee) and the form of organizing (i.e. sole owner versus multiple-owner structures). The hypotheses were tested using the logistic regression models shown in Table 3. The models are adjusted for 23 country clusters in Stata using the cluster option. This hierarchical estimation technique adjusts the standard error by computing a cluster robust standard error for the coefficient. The assumption is that the individual level observations within each country are correlated (Raudenbush & Bryk, 2002; Guo & Zhao, 2000; Stewart et al., 2009).

**Table 1** Description of Explanatory and Control Variables

<b>VARIABLES</b>	<b>SOURCE</b>	<b>YEAR(S)</b>	<b>DESCRIPTION</b>
Stigma	<b>Flash EB</b>	2007-09 Mean	Response to the statement “people who have started their own business and have failed should be given a second chance.” Responses were weighted (-2, 2) with (2) = strongly disagree, (-2) = strongly agree that entrepreneurs should be given a second chance.
Regulatory Conveyance of Stigma	<b>WDI</b>	2005-08 Mean	The depth of credit information index measures rules affecting the scope, accessibility, and quality of credit information available through either public or private credit registries. The index ranges from 0 to 6, with higher values indicating the availability of more credit information to facilitate lending decisions.
Age and Age Squared	<b>GEM</b>	2006-09	Variables measure the age of the respondent (continuous).
Gender	<b>GEM</b>	2006-09	Binary variable (female = 2).
Start-up Skill	<b>GEM</b>	2006-09	% population aged 18-64 agreeing with statement: “you have the skills, knowledge and experience to start a business.”
Time to resolve insolvency (years)	<b>WDI</b>	2005-08 Mean	The time (in calendar years) required by bankruptcy proceedings involving domestic entities is measured. This is an indicator variable constructed from WDI data (“1” = 1.5 years or less; “2” = up to 3yrs; “3” = more than 3 years).
GDP Growth (per capita) growth (annual %)	<b>WDI</b>	2005-08 Mean	Annual percentage growth rate of GDP per capita based on constant local currency.
National Fear of Failure	<b>GEM</b>	2006-09 Mean	% population aged 18-64 agreeing with statement: “fear of failure would prevent you from starting a business.”

**Table 2** Descriptive Statistics

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
<u>Dependent Variables</u>														
1 Early Reentry	.24	.43												
2 Late Reentry	.16	.37												
3 Corporate Reentry	.10	.30												
4 Autonomous Reentry	.14	.35												
5 Sole Owner Reentry	.10	.30												
<u>Explanatory Variables (N=2607)</u>														
6 Start Up Skill	.79	.41	.113 *	.069 *	.053 *	.093 *	.118 *							
7 Female	1.40	.49	-.116 *	-.031	-.080 *	-.074 *	-.092 *	-.125 *						
8 Age	43	11.76	-.097 *	-.131 *	-.074 *	-.049 *	-.036	.069 *	-.012					
9 GDP growth	3.14	2.68	-.020	.080 *	.018	-.042 *	-.022	-.015	-.026	-.018				
10 Stigma	1.11	.20	-.040 *	-.007	-.003	-.052 *	-.056 *	.027	.017	.072 *	.059 *			
11 Regulatory Stigma	4.67	1.09	-.026	.029	-.094 *	.048 *	-.012	.036	.052 *	.053 *	-.153 *	-.296 *		
12 Time to Resolve	1.85	.79	.012	.076 *	.083 *	-.055 *	.004	-.043 *	-.033	-.081 *	.245 *	-.076 *	-.428 *	
13 National Fear of Failure	34.22	7.10	-.010	.010	-.029	.012	.002	-.067 *	-.014	-.081 *	-.013	-.216 *	-.107 *	-.033

\* Correlation is significant at the 0.05 level (2-tailed)

The full models shown in Table 3 are statistically significant, indicating that the models that test the five hypotheses are able to distinguish the effects of stigma and the regulatory conveyance of stigma on the entrepreneurial activities of the GEM respondents in the sample.

**Table 3** Logistic Models of Stigma and Regulatory Conveyance

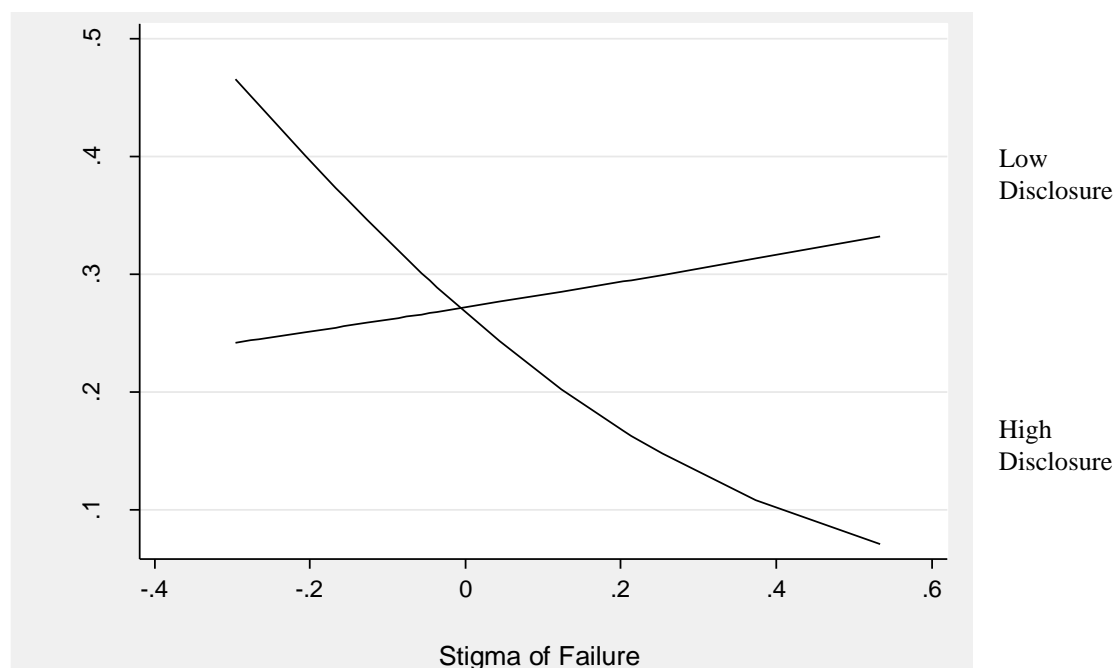
<b>Variables</b>	<b>Early Reentry</b> (Model 1)	<b>Late Reentry</b> (Model 2)	<b>Solo Owner Reentry</b> (Model 3)	<b>Corporate Reentry</b> (Model 4)	<b>Autonomous Reentry</b> (Model 5)
Start Up Skill	1.97 ** (0.33)	1.89 ** (0.30)	3.62 ** (0.78)	1.52 (0.34)	2.08 ** (0.28)
Female	0.58 ** (0.06)	0.88 (0.11)	0.55 ** (0.08)	0.57 ** (0.09)	0.66 ** (0.08)
Age	0.98 ** (0.01)	0.97 ** (0.01)	0.99 * (0.01)	0.98 ** (0.01)	0.99 ** (0.01)
Age Squared	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)	1.00 (0.01)
GDP growth	0.97 (0.03)	1.06 * (0.03)	0.97 (0.03)	0.99 (0.04)	0.97 (0.02)
National Fear Failure	1.01 (0.01)	0.99 (0.01)	1.01 (0.01)	1.00 (0.02)	1.00 (0.01)
Insolvency Time	0.94 (0.09)	1.39 * (0.22)	0.91 (0.08)	1.17 (0.16)	0.82 ** (0.06)
Stigma	0.30 ** (0.11)	2.30 (1.54)	0.17 ** (0.07)	0.22 ** (0.12)	0.43 ** (0.10)
Regulatory Conveyance	0.99 (0.09)	1.18 * (0.10)	0.96 (0.09)	0.93 (0.11)	1.07 (0.06)
<i>Stigma x Reg Convey</i>	0.26 ** (0.12)	3.37 ** (1.28)	0.25 ** (0.12)	0.15 ** (0.09)	0.62 * (0.14)
Constant	0.37 ** (0.09)	0.08 ** (0.03)	0.08 ** (0.03)	0.10 ** (0.04)	0.21 ** (0.06)
-2LL	1374.88	1077.67	808.26	784.97	1040.66
Pseudo R2	.045	.054	.054	.057	.031
Wald Chi2	180.97 **	274.80 **	121.54 **	46.44 **	218.15 **
N	2607	2607	2607	2607	2607

\*\* p&lt;.01, \* p&lt;.05

#### 4.5 Hypothesis Tests

Hypotheses 1 (early re-entry) was supported in Model 1 and Hypothesis 2 (late re-entry) was partially supported in Model 2. A strong correlate of acts of entrepreneurship in both models was startup skill. This correlate has a significant odds ratio of 1.97 ( $p < .01$ ) in Model 1 and 1.89 ( $p < .01$ ) in Model 2. For Hypothesis 1, stigma was also associated with early re-entry. The significant odds ratio of .30 ( $p < .01$ ) indicates that failed entrepreneurs in countries with high stigma levels have a lower likelihood of re-entry. Further, the significant odds ratio of .26 ( $p < .01$ ) for the interaction of stigma and its regulatory conveyance suggests that the likelihood of early re-entry in high-stigma countries decreases with high levels of regulatory conveyance about failure events. This interaction is shown in Figure 7. These results support Hypothesis 1.

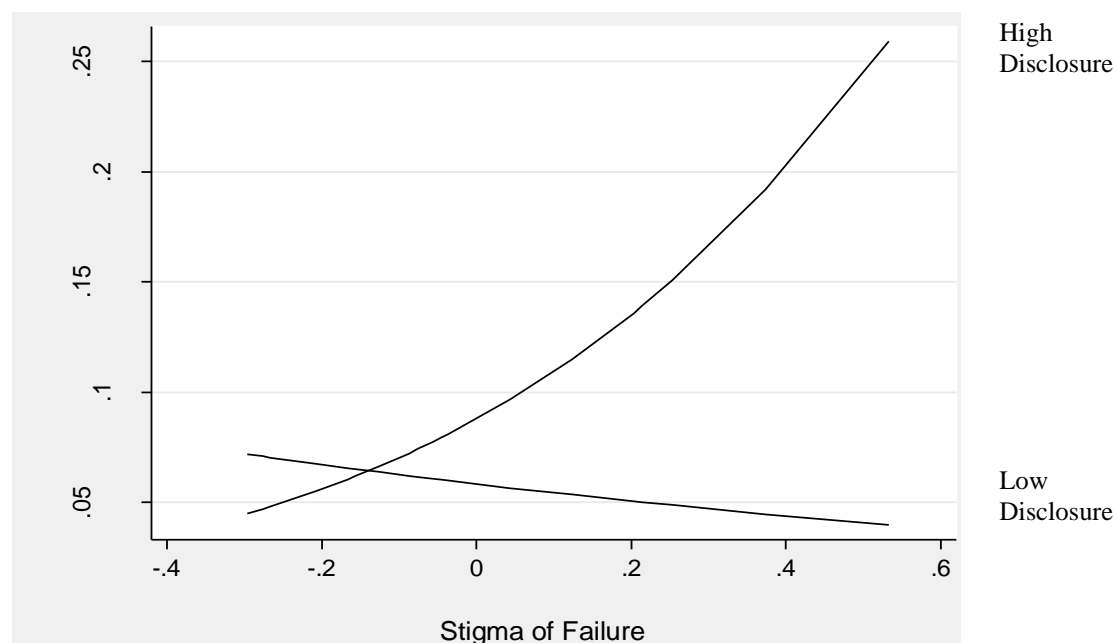
**Figure 7** Early Re-entry





As for late re-entry, stigma is not significant in Model 2. The time to resolve insolvency with an odds ratio of 1.39 ( $p < .05$ ) and the regulatory conveyance of stigma with an odds ratio of 1.18 ( $p < .05$ ) were significant institution-level correlates of the (intended) late re-entry of failed entrepreneurs. The interaction of stigma and its regulatory conveyance was also significant. The significant odds ratio of 3.37 ( $p < .01$ ) for the interaction suggests that the likelihood of late re-entry intention in high-stigma countries increases with high levels of regulatory conveyance about failure events. This interaction is shown in Figure 8. These results partially support Hypothesis 2.

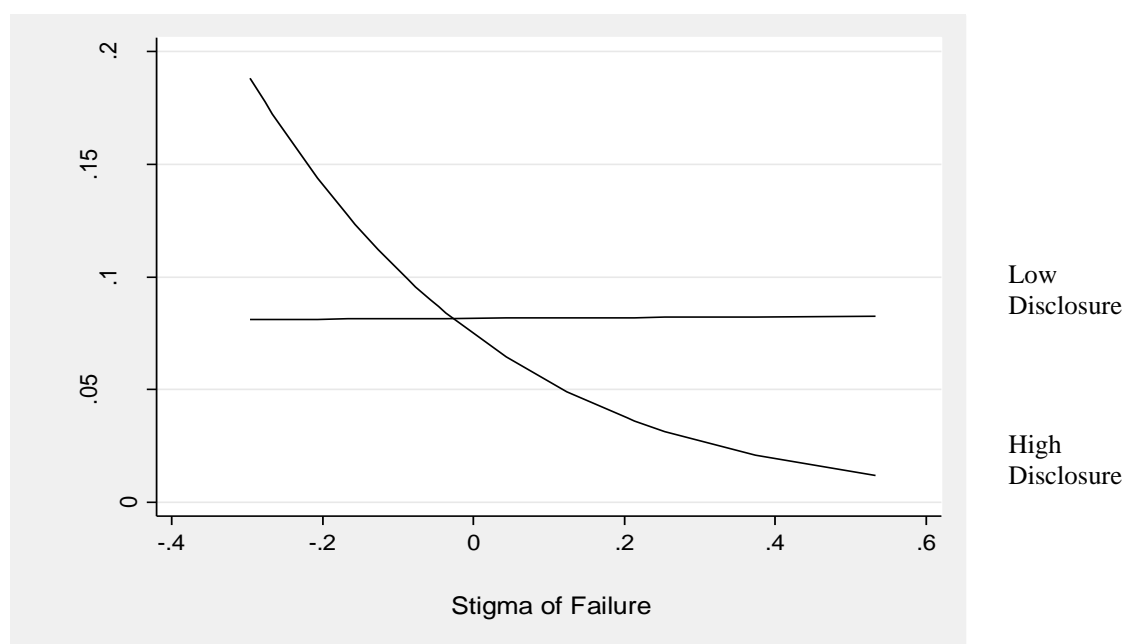
**Figure 8** Late Re-entry



Hypothesis 3 states that the likelihood that exited entrepreneurs organize their re-entry as a sole-owner startup activity is higher in countries with high stigma and low regulatory conveyance of stigma. As shown in Model 3, this hypothesis is supported. Although start-up skill is still a strong correlate of the form of organizing (odds ratio of 3.62,  $p < .01$ ), the results suggest

that stigma reduces the likelihood that skilled entrepreneurs will organize re-entry as sole-owner startups (odds ratio of .17,  $p < .01$ ). Further, the significant odds ratio of .25 ( $p < .01$ ) for the interaction of stigma and the regulatory conveyance suggests that the likelihood of sole owner re-entry in high-stigma countries decreases further with high levels of regulatory conveyance about failure events. A graph of the interaction is shown in Figure 9.

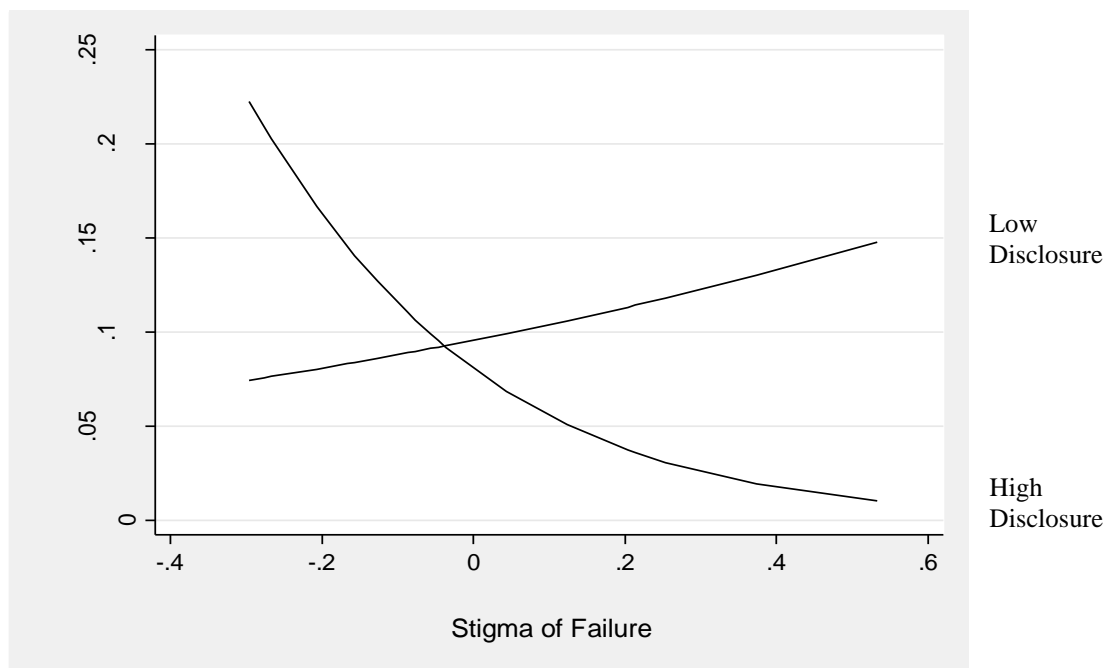
**Figure 9** Sole Owner Re-entry



Hypothesis 4 (corporate mode of re-entry) was supported. Model 4 shows the effects of the independent variables on corporate re-entry. Startup skill was not found to be a significant correlate of corporate re-entry. The significant odds ratio of .22 ( $p < .01$ ) indicates that failed entrepreneurs in countries with high stigma levels have a lower likelihood of corporate re-entry. Further, the significant odds ratio of .15 ( $p < .01$ ) for the interaction of stigma and the regulatory conveyance suggests that the likelihood of corporate re-entry in high-stigma countries decreases

further with high levels of regulatory conveyance about failure events. A graph of the interaction is shown in Figure 10.

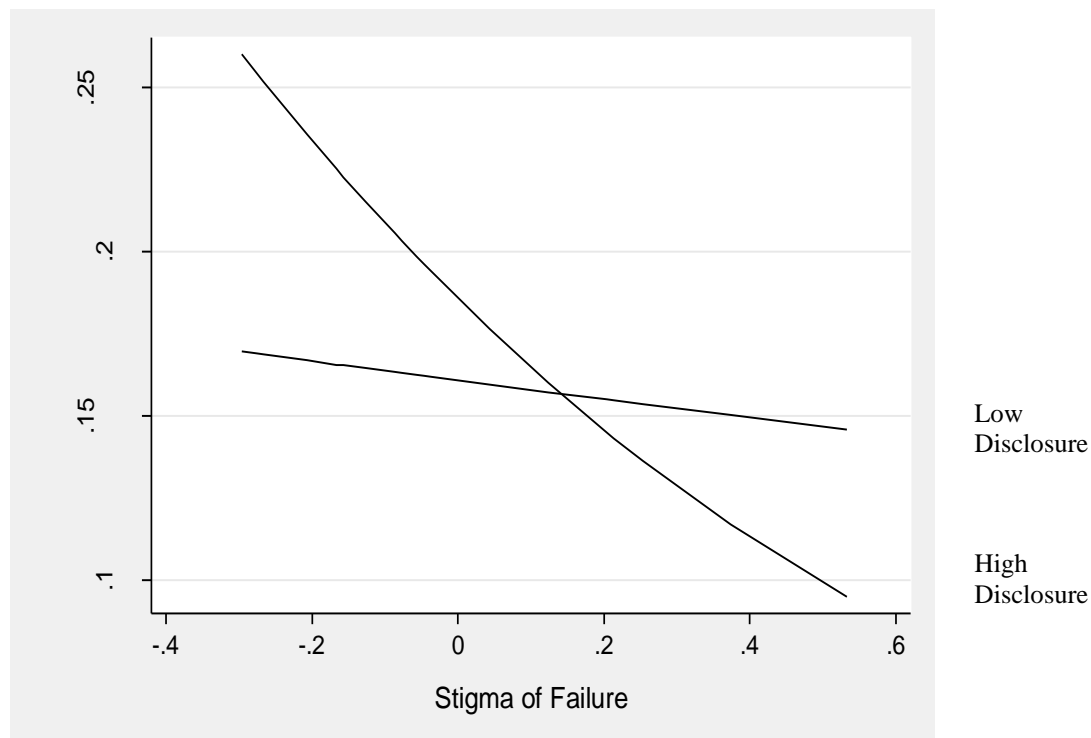
**Figure 10** Corporate Re-entry



Hypothesis 5 (autonomous mode of re-entry) was supported by Model 5. The likelihood of autonomous re-entry was significantly decreased by higher levels of stigma (odds ratio of .43,  $p < .01$ ) and was also significantly decreased by longer times to resolve insolvency (odds ratio of .82,  $p < .01$ ). The strongest correlate in Model 5 is also startup skill, which increases the likelihood that future acts of entrepreneurship will be autonomous (odds ratio of 2.08,  $p < .01$ ). The regulatory conveyance of stigma was not associated with autonomous re-entry. However, the significant odds ratio of .62 ( $p < .05$ ) for the interaction of stigma and its regulatory conveyance suggests that the likelihood of autonomous re-entry in high-stigma countries

decreases further with high levels of regulatory conveyance about failure events. Figure 11 shows a graph of the interaction.

**Figure 11** Autonomous Re-entry



#### 4.6 Discussion

There is empirical evidence of cross-country differences in the probability of entrepreneurial re-entry after failure (Hessels et al., 2011). It has been inferred, but not tested, that these differences can be attributed to various levels of stigma of failure. Previous research into the stigma of failure has compared entrepreneurship indicators at the national level to find important cross-national correlations between indicators of stigma and indicators of entrepreneurial activity (Armour & Cumming, 2008). Building on the proposition from stigma theory that stigma is a multilevel phenomenon (Goffman, 1963), I developed and tested a

theoretical model linking stigma at the national level to the behavior of individual stigmatized entrepreneurs, thus linking the macro and micro levels of stigma. I believe that this research constitutes an important next step for understanding the importance of the stigma of entrepreneurial failure.

Drawing upon the insights of Oliver's framework into how organizations respond to institutional pressures, I developed and tested a model of failed entrepreneurs' responses to different institutional norms. I do not mean to suggest in the model that formal institutions and social norms are independent of each other. Rather, I believe that with this model I develop a theoretically sound typology for understanding the behavioral options open to stigmatized entrepreneurs, showing that an arsenal of behavioral options is available to them. This has not been sufficiently considered in the literature. Moreover, I derive mechanisms that influence which of these options are more or less feasible and when they apply. In considering different modes of re-entry for failed entrepreneurs, the theoretical model corresponds to contemporary conceptualizations of entrepreneurship that emphasize that the act of entrepreneurship (new entry) is separate from the form of organizing (Shane & Venkataraman, 2000).

The results support the baseline hypothesis that failed entrepreneurs are more likely to completely exit entrepreneurship and turn to other career options in contexts where there is a large critical mass conferring stigma sanctions combined with high institutional control over the conveyance of information about the failure. Two different mechanisms may be at play here. First, failed entrepreneurs could withdraw from further entrepreneurial attempts because they internalize the values of the critical mass that entrepreneurial failure is illegitimate. Thus, they view themselves as unfit for entrepreneurship. Second, they may still want to re-enter entrepreneurship but deem their chances for succeeding the next time to be too small because of

their stigma marking. Important stakeholders will likely be unwilling to deal with them and provide them with the resources needed for success.

A context characterized by extensive stigma of failure but low institutional control over the visibility of stigma markings allows entrepreneurs more freedom to act because they can, at least in part, control the information about their prior activities. I hypothesized that this context would be associated with two behaviors. First, entrepreneurs would be less likely to start new firms autonomously. Second, entrepreneurs would be more likely to defer their entry to a later stage, distancing themselves from the failure event (Wiesenfeld et al., 2008). I found support for these hypotheses. Stigma was found to decrease the likelihood of autonomous start-up and disclosure was found to significantly increase the likelihood of deferred re-entry. Note that if the lower probability of re-entry was completely attributed to entrepreneurs' internalization of the values of the critical mass, there would be no reason for the deferral observed in countries with high regulatory conveyance of prior failures.

If the stigma of failure is low but institutional control over the visibility of the stigma markings is high, I hypothesized that failed entrepreneurs have some bargaining power vis-à-vis the institution. I found support for the notion that in these contexts, entrepreneurs would be more likely to re-enter entrepreneurship as employees. I believe that this is a very interesting finding. In line with the theoretical logic, it suggests that failed entrepreneurs are not simply victims of their fate but can pursue more active strategies, negotiating with the constituents in their environments. This finding is also in line with the general notion in entrepreneurship research of entrepreneurs as active agents shaping their own destinies (Sarasvathy et al., 2003).

## **CHAPTER 5: EXPLAINING THE GENDER GAP IN RE-ENTRY FROM BUSINESS FAILURE – STUDY 3**

### 5.1 Introduction

Masculine connotations of entrepreneurship arguably create a heightened expectation that men will dominate the domain, as well as imposing constraints on women with entrepreneurial propensities (Brush, 1992; Miller, 1989). Yet how and when masculine connotations of entrepreneurship lead to differential behavioral expectations of male and female entrepreneurs, and the resultant differences in the demand for their entrepreneurial engagement, has received virtually no attention in the literature (Alsos et al., 2006). Remarkably, despite the wide variation in prevalence rates of entrepreneurship across countries, the gender gap is consistently present in many of the GEM countries at levels of 50% or higher (Allen et al., 2006; Minniti et al., 2005). That is, men are more likely to engage in entrepreneurial activity than women. In Nordic countries, for instance, men are about 75% more likely than women to engage in entrepreneurship (Alsos et al., 2006). Gender gaps of this magnitude are replicated in many countries despite vast differences in institutional contexts. Further, industry considerations exacerbate the gender gap, with a larger concentration of female-led firms in the retail and service industries than in construction, transportation, information technology and agriculture (Godwin et al., 2006).

In Study 3, I examine the correlation between the demand for entrepreneurs who close failed businesses (i.e. stigma) and the gender gap in re-entry after business failure. Demand-side explanations of the gender gap suggest that there are differences in the possibilities for men and women to pursue entrepreneurial opportunities. Such explanations are consistent with the entrepreneurial constraints and choices of disadvantaged minority groups in many countries (cf. Fairlie, 1999). Study 3 builds upon the findings in Study 2 that variations in institutional contexts

of stigma and regulatory disclosure of business failures correlate to the actual re-entry and deferred re-entry intentions of entrepreneurs. While the focus of Study 2 was on the correlations between the institutional context and the re-entry of individual entrepreneurs, Study 3 focuses on the cross-level interactions between the institutional context of where the business failure occurs and gender.

My hypotheses in Study 3 are that: (1) there is a gender gap in the re-entry of entrepreneurs from business failure; (2) consistent with Study 2, the actual and deferred re-entry of the entrepreneurs in the modified Study 3 sample are correlated to variations in institutional contexts of stigma and regulatory disclosure; (3) gender moderates the effects of the regulatory disclosure of information about failed businesses on the re-entry of entrepreneurs; and (4) gender moderates the effects of stigma on the re-entry of entrepreneurs. My hypotheses draw attention to the demand-side effects of stigma on entrepreneurial engagement and to the gender differences in the supply of entrepreneurs who re-enter after business failure.

I test the hypotheses using a unique database consisting of a sample of 2,072 entrepreneurs across 23 GEM countries and hierarchical logistic regression models that control for the random effects of the fear of failure that is the institutional norm in each country. Using this approach, although 23 GEM countries are represented, the entrepreneurs are nested into 20 institutional contexts based on the equivalency of the GEM national fear of failure rates (see Figure 12). The number of entrepreneurs in the Study 3 differs from Study 2 because in Study 3 the sample comprises an equal number of female and male entrepreneurs. Consistent with Study 2, I specifically exclude entrepreneurs who closed their businesses through sale, advanced planning, retirement or to pursue another job or business opportunity. Note also that the Study 3 sample controls for variations in the total supply-side gender difference across countries because all the



individuals in the sample have already made the decision to enter entrepreneurship, as evidenced by their prior start-up activity.

## 5.2 Gender Gaps in Re-entry after Business Failure

The re-entry of entrepreneurs who close failed businesses constitutes an ideal context for testing gender differences in the demand for entrepreneurs. The constituents in a country who close failed businesses belong to the minority within the two genders that have established through prior behaviors that they have at least some of the traits, human capital and preferences that are characteristic of entrepreneurs. Yet this minority grouping of entrepreneurs within the two genders can still be distinguished from other entrepreneurs by their actual experiences of business failure. The prior entrepreneurial exposure of the male and female entrepreneurs in this subgroup arguably should impact how they perceive the feasibility and desirability of new-venture creation (Krueger, 1993). As a consequence, to the extent that there are gender differences in the re-entry into entrepreneurship following business failure, those differences probably cannot be explained by supply-side mechanisms alone, especially since gender differences have not been noted in failure rates (Kalleberg & Leicht, 1991; Minniti, 2009).

Given the emphasis in the literature on the lessons learned from failure (Shepherd, Wiklund & Haynie, 2009), it would be tempting to surmise that the re-entry of experienced male and female entrepreneurs following business failure should be equivalent. I, however, propose that because the stigma that is ascribed to female entrepreneurs remains affixed to their social identity, this will not be the case (Hudson, 2008). Evidence from earlier GEM data supports this contention and shows that gender has an important influence on the re-entry of entrepreneurs who have shut down ventures (Hessels et al., 2011).

In Study 3, the suggestion is that while the competency of both male and female entrepreneurs are theorized to increase with their experience of starting and operating a failed venture, the pre-existing structural positioning of female entrepreneurs in entrepreneurial markets will carry over to the re-entry context. Accordingly, I hypothesize that the gender gap will still exist amongst the entrepreneurs who re-enter after business failure.

**Hypothesis 1.** There is a gender gap in the re-entry of failed entrepreneurs. Failed male entrepreneurs are more likely to re-enter entrepreneurship than are failed female entrepreneurs.

### 5.3 Effects of Stigma and Regulatory Disclosure on Re-entry

The stigma of business failure influences entrepreneurial intentions and action (Barro, 1997; Peng & Zhou, 2005; Giannetti & Simonov, 2003, 2004). This cultural sense-making of the normative expectations and sanctions for failed entrepreneurs arguably influences the willingness of individual constituents to start new ventures or engage in risky activities (Cardon et al., 2011; Armour & Cumming, 2008; Giannetti & Simonov, 2004). Further, this subjective perception of potential stakeholder sanctions is in “itself a stressor” (Miller & Kaiser, 2001, p. 89) that can impede the re-entry of both male and female entrepreneurs who experience business failure (Cooper et al., 1988; Arenius & Minniti, 2005).

The stigmatization of failed entrepreneurs varies on both the country and regional level (Cardon et al., 2011) and at the individual level (EOS Gallup Europe, 2004, 2009). On the one hand, constituents may generally advocate giving entrepreneurs who close failed businesses a second chance. On the other, those same constituents may not advocate engaging entrepreneurs who have closed failed businesses in stakeholder transactions such as investing in their firms or ordering their goods and services (EOS Gallup Europe, 2004). Examples of these types of divergent stigma attitudes have been given in the social psychology literature. Hirschfield and

Piquero (2010), for instance, argue that while social attitudes in an institutional context may be positive towards the rehabilitation of criminals, the social actors operating in that same context may have negative attitudes towards the criminals themselves (cf. Hurwiz & Peffley, 1997).

The regulatory environment for doing business also influences entrepreneurial intentions and action (Levie & Autio, 2011). While the ancient Greeks used branding irons and knives to signal visibly that certain persons were unfit for society, in modern times information about activities that affect the legitimacy of entrepreneurs is often disseminated to social audiences through policies, procedures and formal institutions that collectively comprise a country's regulatory environment for doing business (Devers et al. 2009; Erickson 1962, p. 310). Thus, regulatory information repositories and the information conveyed through these mechanisms are symbolic of the branding mechanisms of the ancient Greeks, for it is through these information repositories that social, economic and legal actors of a country brand entrepreneurs and their businesses as legitimate or illegitimate (Devers et al., 2009) and, in the case of the latter, discourage their entrepreneurial activity (Freel et al., 2012).

The roles of the regulatory environments in influencing entrepreneurial activity vary across countries and contexts. The severity of bankruptcy laws in a country can influence the level of entrepreneurship and access to capital markets (Armour & Cumming, 2008). Likewise, the disclosure of prior business failures in favor of creditor rights can influence the levels of innovation and growth in the technological industries (Acharya & Subramanian, 2009; Djankov et al., 2007). Unfortunately, the bankruptcy laws and information disclosure regulations that are likely to be viewed positively by stakeholders can also contribute to the personal and social embarrassment of entrepreneurs who are stigmatized by their prior failures (Paetzold et al., 2008; Ragins, 2008; Semandeni et al., 2008). In other words, there can be an interaction between the

cultural attitudes that stigmatize entrepreneurs who close failed businesses and the regulatory disclosure of information about business failures that negatively influences re-entry.

Accordingly, the second hypothesis states:

**Hypothesis 2.** There is an interaction effect of regulatory disclosure of business failure and the stigma of failure on the re-entry of failed entrepreneurs. The greater the disclosure, the stronger the negative effect of stigma on the re-entry of failed entrepreneurs.

#### 5.4 Gendered Responses to the Stigma and Disclosure of Business Failures

It is well understood that stigma has *negative* consequences for stigmatized persons (Goffman, 1963). Yet, an emerging research stream in the social psychology literature contends that stigma can also have *positive* implications (Shih, 2004; Herman & Maill, 1990; Steele, 1997, 1999; Steele & Aronson, 1995). Arguably, persons who are stigmatized in multiple contexts develop a set of stigma-coping tactics and approaches that carry forward from one context to the next (Shih, 2004). Additionally, stigmatized individuals can obtain “secondary gains” (Goffman 1963. p. 21) when their stigmatized identities provide the benefit of reducing the sanctions that would otherwise be imposed on other behaviors that fall outside of normative expectations.

There are numerous examples of group differences in stigma sanctions in the literature. As an example, the lowered normative expectations of stigmatized persons who are mentally and physically disabled have been associated with individual group members being less accountable for their nonconforming behaviors (Haber & Smith, 1971). As another example, interviews with former psychiatric patients and involuntarily childless females conducted by Herman and Maill (1990) reveal that positive opportunities for career growth and change can come from the exemption of members of these stigmatized groups from normal social roles and obligations. Researchers have also found that sanctions on cancer patients increase when they are judged to

have contributed to their illness (e.g. smokers), but decrease or become nonexistent when they are not held responsible for the onset of their disease (Lebel & Devins, 2008; Menec & Perry, 1998). As a final example, the literature on stigma and the acceptance of persons with disabilities in the workforce emphasizes that co-workers are less likely to accommodate disabilities that are perceived by to be self-inflicted (McLaughlin et al., 2004; Colella, 2001).

As in the examples cited above, stigma theory can also provide important insights into some of the observed but unexplained gender differences in the engagement of entrepreneurs who have closed failed businesses. Analogous to the examples cited above, when male entrepreneurs fail, one might expect them to be less likely to receive pity or to benefit from the attribution of their failure to external factors such as barriers to entry or lending discrimination. This may not be the case for female entrepreneurs, who encounter stigmatization at earlier stages of the entrepreneurial process, a situation that requires negotiation on a daily basis (Settles, 2004; Ruderman et al., 2002). Arguably, therefore, female entrepreneurs can call upon the coping approaches and tactics they have had to deploy throughout the entrepreneurial process to overcome the stigma associated with business failure (cf. Miller & Kaiser, 2001; Shih, 2004).

As Verheul and colleagues (2006) suggest from their GEM study of 29 countries, the macro factors (such as the regulatory information repositories) that influence the number of female entrepreneurs in a country are likely to be different from the macro factors that influence the share of female entrepreneurs in comparison to their male counterparts (see also Coleman, 2007). Also, drawing upon experiments with a student sample, Gupta and colleagues (2008) suggest that differences in the entrepreneurial intentions of males are greater than those of females in non-stereotyped entrepreneurship contexts (e.g. successful ventures), but that these

differences dissipate in gender neutral stereotyped entrepreneurship contexts (e.g. business failure).

The above suggestions by scholars provide additional perspectives on earlier findings that the entrepreneurial intentions of male and female entrepreneurs have the same antecedents (Lefkowitz, 1994; Langowitz and Minniti, 2007) or that the influence of non-pecuniary factors is lower for male entrepreneurs (Burke et al., 2002). Along these lines, I hypothesize in Study 3 that a duality exists in the effects of the interaction between the stigma and regulatory disclosure of business failures; and, that the outcome of this duality is a narrowing of the gender gap in re-entry from business failure with increases in disclosure to stakeholders.

**Hypothesis 3:** The stigma effect of gender is diminished by the stigma of failure that there is an interaction effect of regulatory disclosure of business failure and gender. The greater the disclosure, the weaker the negative effect of gender on the re-entry of failed entrepreneurs.

Prior studies of the stigma of entrepreneurship failure appear to have been singular in focus, examining only the effect of one stigma at a time on one particular negative outcome at a time (cf. Sutton & Callahan, 1987). Often, however, entrepreneurs encounter stigma in multiple contexts (Link & Phelan, 2001). For female entrepreneurs in particular, their legitimacy as entrepreneurs is arguably weakly related to their ability and strongly related to their structural positioning (Phillips & Zuckerman, 2001). That is, apart from the stigma of having exited entrepreneurship if that prior experience is perceived as a failure by society, there is also the stigma that ascribes a low structural status to female entrepreneurs.

Further, the male connotation of entrepreneurship is associated with the normative expectation that men will succeed in their entrepreneurial activities. This contextual factor potentially explains the findings in earlier studies that female entrepreneurs are in general less confident in their entrepreneurial skills and exhibit a higher fear of failure than their male

counterparts (Koellinger et al., 2011). I suggest that this is not always the case. For male entrepreneurs, the pressures of a failed entrepreneur identity can interfere with the economic and social benefits to which they were once privy on account of their high status roles in the masculine entrepreneurial market. Drawing upon human capital theory, Hessels et al. (2011) used GEM data to examine entrepreneurial exit and re-entry, their results indicating that being male is an important factor that influences entrepreneurial engagement subsequent to exit. While their study does not factor in the stigma of entrepreneurial failure, it does provide consistent evidence that although male ex-entrepreneurs increase their intentions to engage in entrepreneurial activity, there is a correlation between exit and actual re-entry.

In short, identity conflict or interference is likely to arise from the combination of prior identities with the new identity of failed entrepreneur (Settles, 2004). I propose that male entrepreneurs may experience greater identity conflict or interference from the stigma of failure than female entrepreneurs. Such interference has a positive influence on reducing the gender gap. Importantly, I do not suggest that the gender gap ceases to exist within the group of entrepreneurs with business failures. Rather, I suggest that the gender gap is smaller in countries where the stigma of failure is high, and greater in countries where it is low. The fourth hypothesis states:

**Hypothesis 4.** The stigma effect of gender is diminished by the stigma of failure such that there is an interaction effect of stigma and gender. The greater the stigma, the weaker the negative effect of gender on the re-entry of failed entrepreneurs.

## 5.5 Methodology

### 5.5.1 Dataset

This study utilizes a unique dataset that consists of data from GEM, the World Bank and the European Union Flash Barometer. The sample is selected from a cross-country pool of

individuals interviewed during the 2006–2009 fieldwork of the GEM project. The GEM Project is an ongoing study that started in 1999 with the aim of measuring cross-national entrepreneurial activity (Reynolds et al., 1999). The GEM respondents in each country were randomly selected from the general population and interviewed about their entrepreneurial attitudes, intentions and activities. In order to derive the country-level variables of stigma sanctions and prevalence of stigma-conveying symbols in entry-regulatory environments, I combined the GEM data with the World Bank Development Indicators and the European Union Flash Barometer. Complete data were then available for the following 23 countries: the United States, the United Kingdom, Greece, Netherlands, Belgium, France, Spain, Hungary, Italy, Romania, Denmark, Sweden, Norway, Germany, Turkey, Portugal, Ireland, Iceland, Finland, Latvia, Croatia, Slovenia and the Czech Republic.

I adopted the approach of Kwon and Arenius (2010) and pooled the GEM data collected from the respondents in each country across the four-year period from 2006 to 2009 to increase the stability of the measures. I then limited the sample to include only failed entrepreneurs. I relied on a delimitation of failed entrepreneurs that includes only those GEM respondents who had shut down, discontinued or quit a venture in the past 12 months because of financial and other unstated reasons. It is within this group that resiliency is hypothesized to be highly consequential because of the close proximity in time (within 12 months) of the potential failure event (Masten et al., 1999). Furthermore, these start-ups represent the time of maximal heterogeneity in organizational forms and routines. By focusing on them, we gain insights into the forces shaping the composition of the eventual population of established firms (Yang & Aldrich, 2012, p. 490).



Entrepreneurs can close businesses for different reasons (Wennberg et al., 2010). I identified and excluded those respondents who exited through sale, advanced planning, retirement, or to pursue another job or business opportunity. The sample identifies those respondents who shut down, discontinued or quit a venture because of too much competition, lack of customers or profit, financing problems, incidents and other reasons. This view of failure is advantageous because legal frameworks differ substantially across countries, so that in many contexts exit routes other than bankruptcy are preferred for failed entrepreneurs. Entrepreneurs who shut down, discontinue or quit an unsuccessful business have the potential to be stigmatized in their countries (Graham, 1992). A total of 2,072 GEM respondents (1,036 male and 1,036 female) between the ages of 18 and 64 from the 23 countries corresponded to these criteria.

#### 5.5.2 Dependent Variables

I analyzed the influence of stigma and the regulatory conveyance of stigma on both actual re-entry within 12 months of failure and on intentions for deferred re-entry within three years of the GEM interview. The *Actual Re-entry* dependent variable measures whether the GEM respondents identified as failed entrepreneurs are engaged in nascent or new entrepreneurial activity. The variable was constructed from three GEM variables: (1) individuals who are, alone or with others, currently trying to start a new business, including any self-employment or selling any goods or services to others; (2) individuals who are, alone or with others, currently trying to start a new business or a new venture for their employer as part of their normal work; and (3) individuals who currently manage and own a business that is up to 42 months old. As a note, to account for those failed entrepreneurs in the sample who started another business prior to exiting the failed business, I filtered the sample by recoding entrepreneurs who reported owning businesses that paid wages more than one year prior to their GEM interview from “1” to “0”.

Descriptions of the variables in the study are discussed in the next sections and summarized in Table 4. The *Deferred Re-entry Intention* dependent variable measures the intention to engage in entrepreneurial activity within the next three years. To resolve duplication with the actual acts of re-entry, the *Deferred Re-entry Intention* variable was coded as “0” for respondents who are actively involved in a start-up effort as owner, manage and own a business that is up to 42 months old, or are present owners of running businesses.

**Table 4** Description of Explanatory and Control Variables

<b>VARIABLES</b>	<b>SOURCE</b>	<b>YEAR(S)</b>	<b>DESCRIPTION</b>
Stigma	<b>Flash EB</b>	2007-09 Mean	Response to the statement 'people who have started their own business and have failed should be given a second chance.' Responses weighted (-2, 2) with (2) = strongly disagree, (-2) = strongly agree.
Regulatory Conveyance of Stigma	<b>WDI</b>	2005-08 Mean	The depth of credit information index measures rules affecting the scope, accessibility, and quality of credit information available through either public or private credit registries. The index ranges from 0 to 6, with higher values indicating the availability of more credit information to facilitate lending decisions.
Age and Age Squared	<b>GEM</b>	2006-09	Variables measure the age of the respondent (continuous).
Gender	<b>GEM</b>	2006-09	Binary variable (female = 2).
Start-up Skill	<b>GEM</b>	2006-09	% population aged18-64 agreeing with statement: "you have the skills, knowledge and experience to start a business".
Time to resolve insolvency (years)	<b>WDI</b>	2005-08 Mean	The time (in calendar years) required by bankruptcy proceedings involving domestic entities is measured. This is an indicator variable constructed from WDI data ("1" = 1.5 years or less; "2" = up to 3yrs; "3" = more than 3 years).
GDP Growth (per capita) growth (annual %)	<b>WDI</b>	2005-08 Mean	Annual percentage growth rate of GDP per capita based on constant local currency.
Year of Survey	<b>GEM</b>	Annual	Survey year.
National Fear of Failure	<b>GEM</b>	2006-09 Mean	% population aged18-64 agreeing with statement: "fear of failure would prevent you from starting a business."

### 5.5.3 Explanatory Variables

The goal of the study is to examine whether gender matters in the re-entry decisions of failed entrepreneurs under different institutional contexts of cultural expectations that arise from the stigma of failure and the conveyance of business failures in the re-entry regulatory environment. Accordingly, I proffer a sophisticated examination of the entrepreneurial process from multiple levels of analysis (Davidsson & Wiklund, 2001; Alvarez & Busenitz, 2001; Wiklund & Shepherd, 2008; Steyaert & Katz, 2004). There are three explanatory variables. The first, *Gender*, is constructed from the GEM indicator of the biological sex of the respondent. The second, *Stigma*, is constructed from survey data collected by the European Commission on attitudes towards entrepreneurship (Flash Eurobarometer No 283, 2009). The variable measures the percentage of responses to the statement “people who have started their own business and have failed should be given a second chance” that were strongly agree, agree, don’t know, disagree and strongly disagree. Using a (-2, 2) scale, I weighted the response categories and assigned positive values to the negative social judgments about giving failed entrepreneurs a second chance and vice versa.

The third explanatory variable, *Regulatory Conveyance of Stigma*, is constructed from World Development Indicators (WDI) collected as part of the ongoing World Bank Doing Business project that collects data on regulations governing small and medium-sized business operating in 183 economies (World Bank, 2010). The WDI indicator used to construct the Regulatory Conveyance of Stigma variable measures the depth of credit information about individuals and firms that are available through public and private credit registries on a 0-6 scale based upon where and to whom positive or negative data on firms and individuals are

communicated; to whom the information is reported; the age of the information and the opportunities for borrowers and capital providers to inspect the information.

#### 5.5.4 Control Variables

It is important to include individual, network and country-level control variables that are predictors of entrepreneurial behavior in the analysis (Davidsson & Honig, 2003; Stam et al., 2008). On the individual level, I include GEM measures of the respondent's *Age*, *Age Squared*, *Education* and *Start-up Skill* at the time of the GEM interview. These variables provide measures of explicit human capital (Langowitz & Minniti, 2007; Wiklund & Shepherd, 2008; Gimeno et al., 1997). *Age* has been theorized to have a curvilinear effect that both increases human capital through accumulated life experiences and decreases human capital due to loss stamina and risk aversion (Wennberg et al., 2010); thus *Age Squared* was also included in the model. The entrepreneurs in the sample ranged in age from 16–64. *Education* has been argued to provide a measure of the explicit human capital (Wiklund & Shepherd, 2008; Gimeno et al., 1997). While a control variable for education is included in the models, there are mixed findings as to whether education is a proxy for entrepreneurial propensity outside of the context of high-growth firms (Blanchflower, 2004; Arenius & Minniti, 2005). The education variable in the model measures whether individual failed entrepreneurs received postsecondary or higher levels of education. The last individual-level control variable, *Start-up Skill*, measures the respondent's perception of whether they have the skills, knowledge and experience to start a business.

On the network level, I include the *Entrepreneurs in Network* variable that is the GEM measure of whether the respondent knows someone else who has started a business in the last 12 months. This measure is indicative of the influence of support structures embedded in the networks of individual entrepreneurs (Brush et al., 2004; Runyan et al., 2006; Jack & Anderson,

2002). GEM data supports this contention and shows that knowing a recently started entrepreneur has an important influence on the re-entry of entrepreneurs who shut down ventures (Hessels et al., 2011). On the country level, I include a GEM measure of the *Time to Resolve Insolvency* and *GDP Per Capita Growth*. I include these variables because prior studies have found a systematic relationship between the size and dynamics of the entrepreneurial economy and the levels of entrepreneurial activity in countries (Acs et al., 2005; Armour & Cumming, 2008).

## 5.6. Results

### 5.6.1 Descriptive Statistics

The descriptive statistics for the study variables are shown Table 5. In the sample of 2,072 entrepreneurs who exited failed ventures, 24% were engaged in actual entrepreneurial activity. Approximately half of the sample had post-secondary education or higher and the average age of the entrepreneurs was 43 years. Consistent with the literature on experienced entrepreneurs, the perception of four-fifths of the sample (80%) was that they had the start-up skills to engage in entrepreneurial activity. A smaller percentage (60%) of the experienced entrepreneurs, however, reported having other entrepreneurs in their networks. On the national level, the mean GDP annual growth per capita was positive for this group of countries; the mean national fear of failure rate was 34% of the population; and the mean time to resolve insolvency exceeded 1.5 years.

**Table 5** Descriptive Statistics

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
<i>Variables (N=2072)</i>														
1 Actual Reentry	.24	.43	--											
2 Deferred Reentry	.16	.37	--											
3 Female	1.5	.5	-.113 *	-.051 *										
4 Education	1.5	.5	.038	-.011	.018									
5 Entrepreneur Network	.6	.5	.177 *	.076 *	-.098 *	.098 *								
6 Startup Skill	.8	.4	.134 *	.082 *	-.139 *	.093 *	.136 *							
7 Age	43	11.6	-.101 *	-.132 *	-.012	.032	-.143 *	.050 *						
8 GDP Growth	3.1	2.6	-.008	.085 *	-.020	-.059 *	.052 *	-.022	-.042					
9 National Fear of Failure	34	7.0	-.005	.012	-.023	.030	.010	.011	-.063 *	.003				
10 Insolvency Time	1.8	.8	.020	.080 *	-.018	.008	-.022	-.055 *	-.089 *	.250 *	-.046 *			
11 Stigma	1.1	.2	-.049 *	.012	.027	-.135 *	.046 *	-.037	.055 *	.072 *	-.178 *	-.077 *		
12 Regulatory Conveyance	4.7	1.1	-.025	.011	.052 *	.100 *	-.041 *	.035	.056 *	-.159 *	-.100 *	-.427 *	-.306 *	
13 Survey Year	2007	1.2	.034	-.017	.012	.009	.000	.038	.050 *	-.432 *	-.067 *	-.183 *	.112 *	.036

\* Correlation is significant at the 0.05 level (2-tailed)

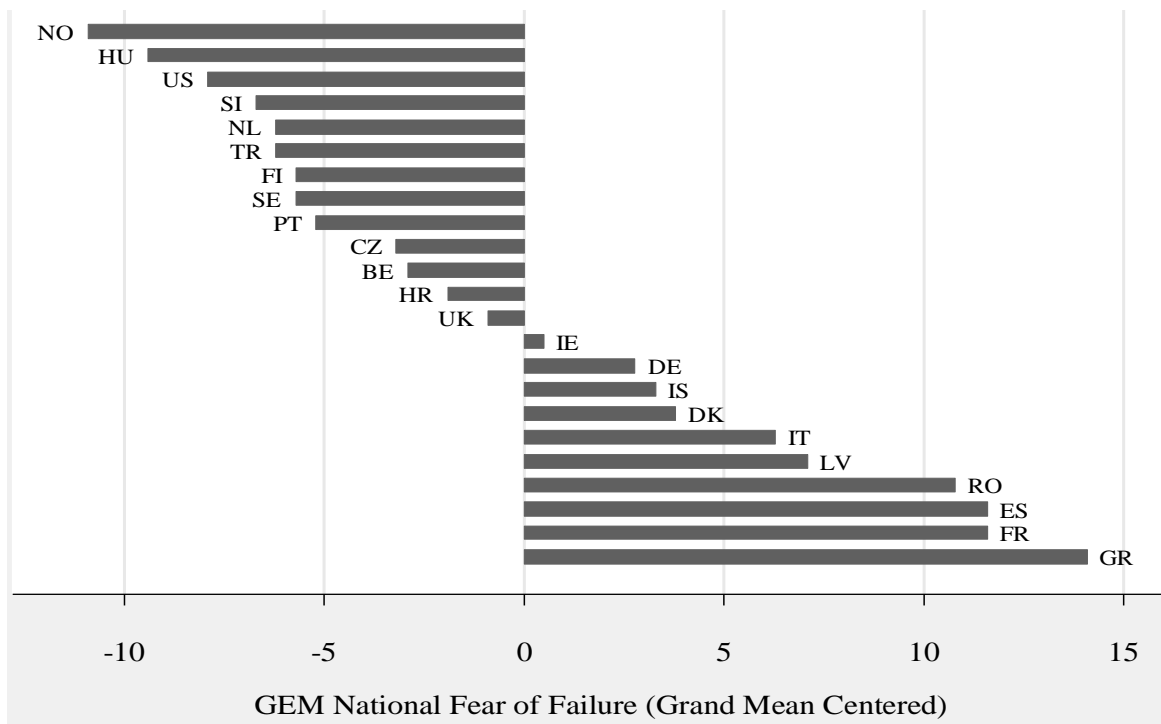
### 5.6.2 Hierarchical Regression Models

The empirical interests of the model lie in the gender differences that may exist in the effects of stigma on the entry decision of entrepreneurs above and beyond the effects explained by the individual-level human capital and economic growth variables. Accordingly, I test the hypotheses using hierarchical logistic regression models. Because the dependent variable is binary, I estimate the hierarchical logistic regression models using the `xtmelogit` function in the Stata 11 program for fitting mixed-effects models for binary/binomial responses. The `xtmelogit` function, which estimates random intercept, fixed-sloped models for each dependent variable, can be used for both longitudinal/panel data and for the type cross-sectional data in the study (Rabe-Hesketh & Skrondal, 2008). This estimation technique facilitates the nesting of the individual-level decisions of the entrepreneurs within the context of institutional-level variables and the examination of the effects across levels (Raudenbush & Bryk, 2002; Guo & Zhao, 2000; Stewart, Baumer, Brunson & Simons, 2009).

The null or empty model is shown in Table 6 for the actual re-entry dependent variable and in Table 7 for the deferred re-entry dependent variable with only intercept parameters and institutional effects. This model has no control variables or predictors. Although there are 23 countries in the study, the random effects are derived from 20 groups based on the mean GEM *National Fear of Failure* rate for 2006 to 2009. The GEM Reports suggest that there are variances across countries in the fear of failure, and that fear of failure has implications for the total entrepreneurial activity in a country (Acs et al., 2005). Figure 12 depicts the distances in the fear of failure rates across these countries.



**Figure 12** GEM National Fear of Failure (Mean 2006–09)



I estimate the model using adaptive quadrature with seven integration points. The equation for the null model is described in Equation 1, whereas the intercept  $\beta_0$  is shared by all 20 institutional contexts and the random effect  $u_{oj}$  is specific to the country  $j$ . The random effect is assumed to follow a normal distribution with the expected value 0 and the variance  $\sigma^2_{u_o}$ :

$$\log [ p_{ij} / (1-p_{ij}) ] = \beta_0 + u_{oj} \quad (\text{Equation 1})$$

The null models in Tables 6 and 7 suggest that the actual and deferred re-entry decisions of the GEM respondents in the study have significant variation across countries. The likelihood ratio statistics for testing the null hypothesis that  $\sigma^2_{u_o} = 0$  are 24.56 for actual re-entry and 43.16 for deferred re-entry and both corresponds to a p-value of less than 0.00005; which provides evidence that the between-country variance is not zero. As another check of the models, I

calculated the intra-block group correlation coefficient (ICC) using Equation 2, whereas  $p$  is the ICC coefficient,  $\tau_{00}$  is the between country variance from level 2 and  $\sigma^2$  is the level 1 variance that is fixed to the variance of a standard logistic distribution,  $\sigma^2 = \pi^2/3 = 3.29$ .

$$p = \tau_{00} / (\tau_{00} + \sigma^2) \quad (\text{Equation 2})$$

The ICC indicates that variation in the dependent variable is likely to be explained by differences in the institutional contexts of each country that are above and beyond individual-level attributes. The ICC for actual re-entry is 9.6% ( $0.35 / (0.35 + 3.29)$ ) and the ICC for deferred re-entry is 13.2% ( $0.5 / (0.5 + 3.29)$ ). The greater than zero ICCs for the dependent variables support the finding that the institutional contexts of the male and female entrepreneurs in Study 3 do have an influence on business re-entry.

### 5.6.3 Hypothesis Testing

Hypothesis 1 states that there is a gender gap in the re-entry of failed entrepreneurs such that male entrepreneurs are more likely to re-enter entrepreneurship than are female entrepreneurs. In the Table 6 models of actual re-entry, the significant odds ratio of .62 ( $p < .01$ ) suggests that there is a lower overall odds of actual re-entry for the female entrepreneurs in the sample. In Table 7's models of deferred entry, the female variable is non-significant. These findings support Hypothesis 1 and suggest that the gender gaps observed amongst nascent entrepreneurs in general also occur in the re-entry of failed entrepreneurs. The findings also support that while significant differences may exist in the actual re-entry of male and female entrepreneurs, there may not be significant differences in their entrepreneurial intentions.

In addition, the significant odds ratios of 2.09 for "start-up skill" ( $p < .01$ ) and 2.17 ( $p < .01$ ) for "entrepreneurs in network" in Model 1 of Table 6 suggest that perceptions of both individual skills and knowing other entrepreneurs play significant roles in re-entry after business failure. In

Model 1 of Table 7 for deferred entry, the “entrepreneurs in network” variable is marginally significant with an odds ratio of 1.27 ( $p < .10$ ) and the “start-up skill” variable is significant with an odds ratio of 2.04 ( $p < .01$ ). These results also suggest that perceptions of individual skill and knowing other entrepreneurs positively influence entrepreneurial intentions. Lastly, for the “time to resolve insolvency”, the significant odds ratio of 1.40 ( $p < .01$ ) in Model 1 of Table 7 supports my contention that the regulatory environment for doing business plays an important role in the timing of re-entry following business failure. In the Table 6 models of actual re-entry, the time to resolve insolvency variable was not significant.

Hypothesis 2 states that there is an interaction effect between regulatory disclosure of business failure and the stigma of failure on the re-entry of failed entrepreneurs so that the greater the disclosure, the stronger the negative effect of stigma on re-entry after business failure. The significant direct negative effects of stigma in Table 6 Model 2 (.54  $p < .05$ ) and marginally significant direct negative effects of regulatory disclosure in Table 6 Model 2 (.94,  $p < .10$ ) support the finding that high levels of stigma and regulatory disclosure lower the odds of actual re-entry. In Table 7 Model 2, the effects of both variables were not significant on deferred re-entry intentions.

For the interaction of stigma and regulatory disclosure, the odds ratio of .46 ( $p < .10$ ) in Model 3 of Table 6 for actual re-entry and (2.71,  $p < .10$ ) in Model 3 of Table 7 for deferred re-entry marginally supports Hypothesis 2. Note that the odds ratio for the stigma variable decreases to .38 ( $p < .05$ ) in Model 3 of Table 6 with the interaction of stigma and regulatory disclosure. Also note that in Model 5 of Table 6 (.46,  $p < .05$ ) for actual re-entry, and in Models 4 and 5 of Table 7 (2.76,  $p < .05$ ) for deferred re-entry, the effects of the interaction of stigma and regulatory disclosure are supported at higher ( $p < .05$ ) significance levels.

Hypothesis 3 states the stigma effect of gender is diminished by the stigma of failure so that there is an interaction effect between regulatory disclosure of business failure and gender. The greater the disclosure, the weaker the negative effect of gender on the re-entry of failed entrepreneurs. Although the significant negative effects of the female variable in all of the Table 6 models indicate that the gender gap still exists in actual re-entry from business failure (Hypothesis 1), the significant odds ratio of 1.21 ( $p < .05$ ) in Model 4 of Table 6 for the cross-level interaction effect of the female and regulatory disclosure variables on actual re-entry suggest that the gender gap may be narrower in high-disclosure institutional contexts. This result support Hypothesis 3 for the actual re-entry of entrepreneurs. The cross-level interaction of “female” and “regulatory disclosure” is not significant in Table 7.

Hypothesis 4 stated that the stigma effect of gender is diminished by the stigma of failure so that there is an interaction effect between stigma and gender. The greater the stigma of failure, the weaker the negative effect of gender on the re-entry of failed entrepreneurs. Hypothesis 4 was not supported in Model 5 of Table 6 for actual re-entry. Hypothesis 4 was also not supported in Model 5 of Table 7 for deferred re-entry intention. This is an interesting finding: the interaction of the female and regulatory disclosure variables (Hypothesis 3) significantly weakened the negative effects of being female on re-entry, but the interaction of the female and stigma variables (Hypothesis 4) was not significant. These findings support the idea that differences in formal institutions can play significant roles in gender differences in actual re-entry following business failure.

#### 5.6.4 Discussion

Study 3 tested four hypotheses that highlight the correlations between the stigma of business failure, the regulatory environment for doing business, and the gender gaps in re-entry

after business failure. I find support for Hypothesis 1 that there are gender gaps in the re-entry context. I also find support for Hypothesis 2 that there is a negative correlation between the interaction of the regulatory disclosure of business failure and the stigma of failure and the re-entry of failed entrepreneurs. For Hypotheses 3 and 4, the gender effects of the stigma and regulatory disclosure of business failure are also examined. The support for Hypothesis 3 suggests that institutional contexts with more disclosure of business failure may have a smaller gender gap in the actual re-entry of failed entrepreneurs. I did not find support for Hypothesis 4 that the stigma effect of gender is diminished by the stigma of failure so that the greater the stigma, the weaker the negative effect of gender on the re-entry of failed entrepreneurs. Two explanations can be offered for this lack of support. The first is that there is an insignificant difference in stigma contexts for the negative effects on the re-entry of male entrepreneurs. The second is that there are insignificant gender differences across variations in the stigma contexts for the re-entry of entrepreneurs who have experienced business failure. Further research is needed.

Social attitudes toward female entrepreneurs with careers in historically masculine occupations such as entrepreneurship are becoming more flexible as more women choose entrepreneurship as a career path (Diekmann & Goodfriend, 2006; Diekmann & Eagly, 2000). What is less evident is how gendered differences in social expectations of the performance of male and female entrepreneurs influence their career paths following failure in the entrepreneurship domain. Yet this is an important question to ask. First, because prior research on occupational stereotypes suggests that gender role expectations for males are more restrictive than for females (Wilbourn & Kee, 2010). Second, because how failure is acknowledged by entrepreneurs and their stakeholders can result in the misapplication of the scarce entrepreneurial

resources that exist within a country (Zacharakis et al., 1999; McGrath, 1999) and in constraints on the diversity of entrepreneurs, which could contribute to economic development (Verheul & Thurik, 2001).

While it is the case that in institutional contexts with the right incentives, experienced entrepreneurs can play a dominant role in the start-up of businesses that positively contribute to the diversity and value of their entrepreneurial economies (Cliff et al., 2006; Allen et al., 2006), the findings highlight the danger that, with the wrong incentives (Landier, 2005), the implications of business failure for the re-entry of experienced male and female entrepreneurs can be negative. The findings also highlight the fact that while there still remains a gender gap in the re-entry of entrepreneurs who exit failed businesses, both stigma and the regulatory disclosure of business failures can have different influences on the timing of the re-entry of male and female entrepreneurs.

**Table 6** Hierarchical Models of Actual Re-entry (12 Months)

DV: ACTUAL REENTRY (12 MONTHS)	Null Model				Model 1				Model 2				Model 3				Model 4				Model 5			
	exp(b)	SE	[95% C.I.]		exp(b)	SE	[95% C.I.]	exp(b)	SE	[95% C.I.]	exp(b)	SE	[95% C.I.]	exp(b)	SE	[95% C.I.]	exp(b)	SE	[95% C.I.]	exp(b)	SE	[95% C.I.]		
<b>Individual and Control Variables</b>																								
Female	-	-	-	-	0.62 **	0.07	0.50	0.78	0.63 **	0.07	0.50	0.78	0.63 **	0.11	0.50	0.78	0.62 **	0.07	0.50	0.78	0.63 **	0.07	0.50	0.78
Education	-	-	-	-	1.05	0.12	0.84	1.32	1.04	0.12	0.84	1.31	1.04	0.12	0.84	1.32	1.05	0.12	0.84	1.32	1.06	0.12	0.84	1.32
Startup Skill	-	-	-	-	2.09 **	0.34	1.52	2.89	2.11 **	0.35	1.53	2.91	2.10 **	0.37	1.53	2.92	2.12 **	0.35	1.53	2.92	2.11 **	0.35	1.53	2.91
Entrepreneur Network	-	-	-	-	2.17 **	0.27	1.71	2.77	2.18 **	0.27	1.71	2.78	2.16 **	0.17	1.70	2.77	2.17 **	0.27	1.70	2.77	2.17 **	0.27	1.71	2.77
Age	-	-	-	-	0.98 **	0.01	0.97	0.99	0.98 **	0.00	0.97	0.99	0.98 **	0.01	0.97	0.99	0.98 **	0.00	0.97	0.99	0.98 **	0.00	0.97	0.99
Age Squared	-	-	-	-	1.00	0.00	1.00	1.00	1.00	0.00	1.00	1.00	1.00	0.01	1.00	1.00	1.00	0.00	1.00	1.00	1.00	0.00	1.00	1.00
Gdp Growth Per Capita	-	-	-	-	1.03	0.03	0.98	1.09	1.03	0.03	0.98	1.09	1.02	0.03	0.97	1.08	1.02	0.03	0.97	1.08	1.02	0.03	0.97	1.08
Insolvency Resolve Time	-	-	-	-	1.02	0.11	0.82	1.27	0.97	0.12	0.77	1.23	0.97	0.19	0.78	1.20	0.97	0.11	0.78	1.20	0.97	0.11	0.78	1.20
Survey Year	-	-	-	-	1.08	0.06	0.97	1.20	1.09	0.06	0.98	1.22	1.08	0.07	0.97	1.20	1.08	0.06	0.97	1.20	1.08	0.06	0.98	1.20
<b>Stigma and Disclosure Variables</b>																								
Stigma	-	-	-	-	-	-	-	-	0.54 *	0.24	0.23	1.30	0.38 *	0.17	0.16	0.91	0.39 *	0.17	0.16	0.92	0.22	0.22	0.03	1.55
Regulatory Disclosure of Failure	-	-	-	-	-	-	-	-	0.94 +	0.09	0.78	1.13	0.99	0.09	0.83	1.17	0.75 +	0.12	0.55	1.02	0.73 +	0.12	0.52	1.02
Stigma x Regulatory Disclosure	-	-	-	-	-	-	-	-	-	-	-	-	0.46 +	0.19	0.21	1.02	0.46 +	0.19	0.21	1.02	0.46 *	0.18	0.21	1.00
<b>Cross Level Interactions</b>																								
Female x Regulatory Disclosure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.21 *	0.11	1.00	1.45	1.24 **	0.11	1.00	1.45
Female x Stigma	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.48	0.92	0.44	4.98
<b>Random Effects (Fear of Failure)</b>																								
Constant	0.35	0.08	0.22	0.56	0.34	0.09	0.21	0.56	0.32	0.08	0.19	0.53	0.25	0.09	0.12	0.50	0.24	0.09	0.12	0.50	0.25	0.09	0.12	0.50
Chibar2(1)	24.56 **				19.91 **				16.36 **				5.00 *				4.69 *				4.79 *			
# Groups	20				20				20				20				20				20			
Min Observations Per Group	35				35				35				35				35				35			
Wald Chi2	-				113.49 **				115.02 **				119.18				122.62 **				123.10 **			
-2LL	1123.43				1058.45				1057.51				1055.98				1053.84				1053.64			
N	2,072				2,072				2,072				2,072				2,072				2,072			

+ (p<.10), \* (p<.05), \*\* (p<.01)

**Table 7** Hierarchical Models of Deferred Re-entry

DV: DEFERRED REENTRY (3 YEARS)	Null Model				Model 1				Model 2				Model 3				Model 4				Model 5			
	<i>exp(b)</i>	SE	[95% C.I.]		<i>exp(b)</i>	SE	[95% C.I.]		<i>exp(b)</i>	SE	[95% C.I.]		<i>exp(b)</i>	SE	[95% C.I.]		<i>exp(b)</i>	SE	[95% C.I.]		<i>exp(b)</i>	SE	[95% C.I.]	
<b>Individual and Control Variables</b>																								
Female	-	-	-	-	0.84	0.11	0.66	1.08	0.84	0.11	0.66	1.08	0.84	0.11	0.66	1.08	0.85	0.11	0.66	1.08	0.85	0.11	0.66	1.09
Education	-	-	-	-	0.91	0.12	0.70	1.18	0.91	0.12	0.70	1.18	0.91	0.12	0.70	1.18	0.91	0.12	0.70	1.18	0.91	0.12	0.70	1.17
Startup Skill	-	-	-	-	2.04 **	0.37	1.43	2.92	2.04 **	0.37	1.43	2.92	2.04 **	0.37	1.43	2.92	2.04 **	0.37	1.43	2.92	2.04 **	0.37	1.44	2.94
Entrepreneur Network	-	-	-	-	1.27 +	0.17	0.97	1.66	1.27 +	0.17	0.97	1.66	1.29 +	0.18	0.98	1.69	1.29 +	0.18	0.98	1.69	1.29 +	0.18	0.98	1.69
Age	-	-	-	-	0.97 **	0.01	0.95	0.98	0.97 **	0.01	0.95	0.98	0.97 **	0.01	0.95	0.98	0.97 **	0.01	0.95	0.98	0.97 **	0.01	0.95	0.98
Age Squared	-	-	-	-	1.00 *	0.01	1.00	1.00	1.00 *	0.01	1.00	1.00	1.00 *	0.00	1.00	1.00	1.00 *	0.00	1.00	1.00	1.00 *	0.00	1.00	1.00
Gdp Growth Per Capita	-	-	-	-	1.03	0.03	0.97	1.10	1.03	0.03	0.97	1.10	1.04	0.03	0.98	1.11	1.04	0.03	0.98	1.11	1.04	0.32	0.98	1.11
Insolvency Resolve Time	-	-	-	-	1.40 **	0.19	1.08	1.83	1.51 **	0.19	1.14	1.98	1.53 **	0.20	1.18	1.98	1.52 **	0.20	1.18	1.98	1.52 **	0.20	1.18	1.98
Survey Year	-	-	-	-	1.02	0.07	0.90	1.17	1.03	0.07	0.90	1.17	1.05	0.07	0.92	1.19	1.04	0.07	0.92	1.19	1.04	0.07	0.92	1.19
<b>Stigma and Disclosure Variables</b>																								
Stigma	-	-	-	-	-	-	-	-	1.30	0.72	0.44	3.87	1.98	1.08	0.67	5.79	1.96	1.07	0.67	5.73	1.96	5.70	0.59	45.12
Regulatory Disclosure of Failure	-	-	-	-	-	-	-	-	1.20	0.15	0.95	1.53	1.12	0.13	0.88	1.41	1.45 +	0.32	0.94	2.23	1.45 +	0.34	0.97	2.34
Stigma x Regulatory Disclosure	-	-	-	-	-	-	-	-	-	-	-	-	2.71 +	1.41	0.97	7.52	2.76 *	1.44	0.99	7.67	2.76 *	1.46	1.01	7.77
<b>Cross Level Interactions</b>																								
Female x Regulatory Disclosure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.84	0.10	0.66	1.07	0.84	0.10	0.63	1.05
Female x Stigma	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.52	0.34	0.14	1.88
<b>Random Effects</b>																								
<i>(National Fear of Failure)</i>																								
Constant	0.50	0.11	0.32	0.76	0.47	0.11	0.30	0.73	0.42	0.10	0.26	0.68	0.37	0.10	0.21	0.63	0.36	0.10	0.21	0.63	0.36	0.10	0.21	0.63
Chibar2(1)	43.16 **				33.17 **				23.30 **				13.11 **				12.85 **				12.58 **			
# Groups	20				20				20				20				20				20			
Min Observations Per Group	35				35				35				35				35				35			
Wald Chi2	-				67.39 **				69.88				74.59 **				76.43 **				77.40 **			
-2LL	901.72				863.08				862.04				860.38				859.37				858.88			
N	2,072				2,072				2,072				2,072				2,072				2,072			

+ (p&lt;.10),\* (p&lt;.05), \*\* (p&lt;.01)



## CHAPTER 6: LIMITATIONS AND FUTURE RESEARCH

### *Study 1*

In the theoretical framework and propositions, I refer to “prevention-focused” and “promotion-focused” entrepreneurs. However, it is important to emphasize that the regulatory states of individual entrepreneurs are not dichotomized but exist on a continuum, and that triggering events such as business exits can activate promotion- or prevention-focused situational states distinct from, and at times opposite to, an individual’s chronic regulatory system. It is also important to emphasize that the regulatory state that is activated can also be distinct from the situational state that may be triggered by other aspects of the entrepreneurial process (Higgins, 2000; Roese, Hur & Pennington, 1999). Prior studies, however, demonstrate that the same effects on goal pursuit can be predicted for both chronic and situation-induced regulatory states (e.g. Higgins, 2000). As an example, Roese, Hur and Pennington (1999) demonstrate in their study of counterfactual scenarios that entrepreneurs with a chronic promotion focus can be primed into a prevention focus and vice versa. In these cases, the effects of regulatory fit or non-fit are likely to be governed by the primed regulatory focus. Additionally, Briley and Aaker (2006) and Wang and Lee (2006) suggest that the processing of information systematically (e.g. an exit decision) as opposed to simply relying on heuristics will motivate individuals to expend cognitive resources to evaluate a choice carefully. This systematic processing also diminishes or reduces the relevance of the entrepreneur’s chronic regulatory focus.

Additionally, in the discussion of the propositions, I do not distinguish between sales and liquidations. Because of the seriousness of the exit decision, I would expect that entrepreneurs would use systematic processing and not heuristics to choose between whether to sell their interests or to liquidate the venture. Accordingly, I surmise that the choice between selling the

business and liquidating it is more likely to be driven by the economics of the exit than by heuristics. As such, the propositions and theory development in the study focus on the exit process and the regulatory fit of messages that signal whether a harvest or distress exit is conditioned on the presence or absence of gains (promotion) or on the presence or absence of losses (prevention). Finally, although the discussion emphasizes the “individual” entrepreneur, regulatory fit can also be examined as an interpersonal construct that considers the collective regulatory foci of the members of a venture team (Righetti, Finkenauer & Rusbult, 2011). Regulatory fit can also be examined from the perspective of how the regulatory system of an entrepreneur leader is internalized by employees (Wu, McMullen, Neubert & Yi, 2008).

Because the implications of regulatory fit on the entrepreneurial process are relatively unexplored in the literature, there are several opportunities for future empirical research. Regulatory fit can be operationalized using the process- or outcome-based approaches discussed and investigated with a focus on how value is created under both positive and negative circumstances; and, under different levels of engagement (e.g. lifestyle vs. growth firms). Regulatory fit can also be explored in the context of grief recovery (Shepherd, 2003). An interesting question to explore is whether the regulatory fit of the exit route plays a role in the likelihood that entrepreneurs will experience grief as a result of their exit. Future research should also examine the extent to which pre-existing engagement strength moderates the effect of regulatory fit or non-fit on the value creation (i.e. motivation intensity) from harvest or distress exits. Some studies (e.g. Avnet & Higgins, 2003) describe “feeling right” as a direct effect on the value from regulatory fit. Others (Avnet & Higgins, 2006; Pham & Avnet, 2009) describe the “feeling right” component as an indirect relationship to value creation that is moderated by the strength of engagement. Recent articles by Lee (2009), Hong and Lee (2008) and Wang and Lee

(2006) argue that pre-existing strength of engagement moderates the effects of regulatory fit or non-fit on value creation.

Accordingly, when persons have a low pre-existing level of engagement in goal pursuits, Lee (2009) suggests that regulatory fit in both positive or negative contexts is likely to create value because the fluency and ease of persuasion in the processing of messages or signals increases to fit the activated regulatory state. Lee (2009) also makes the counterintuitive suggestion that when individuals have high pre-existing engagement strength, then regulatory non-fit is also likely to create value because when the goal pursuit is important, a non-fit is likely to be internalized as a challenge that intensifies engagement. This emerging research stream in the cognitive psychology literature can provide insight into how the cognitive effects of business differ across contexts such as lifestyle versus high-growth firms, for example.

### *Studies 2 and 3*

For Studies 2 and 3, there are limitations that provide opportunities for future research. Reliance on multi-country secondary data is necessary to test the hypotheses. At the same time, however, such data is typically associated with coarse-grained measures. For example, entrepreneurs were selected from the sample on the basis of their stated reasons for exit. It is possible that some who were included had closed firms that were not failures (Wennberg et al., 2010), while others were excluded because they were not willing to admit that the businesses they closed were unsuccessful. Further, although I have tried to isolate autonomous start-ups, some overlap of autonomous and new corporate ventures could remain. Such shortcomings are likely to introduce random measurement error, leading to attenuation of results. The risk that this measurement error could lead to spurious results is small. Ideally, respondent re-entry claims would be validated by secondary data from registrations of new businesses or similar, but in

some countries registration is not compulsory and so no universal double check is possible – indeed, the GEM data is currently the only source of individual-level business re-entry across nations. In addition, I utilize country-level macro measures of stigma and cross-sectional micro measures in the study. The normative expectations of failed entrepreneurs and the stigma responses of individual entrepreneurs may be clustered by other individual-level attributes and contexts such as regions, industry groups or networks (Cardon et al., 2011; Saxenian, 1994). Likewise, a longitudinal study of the influence of variables with temporal components such as regulatory reporting expirations, dynamism (Damaraju et al., 2010) and resilience (Hayek, 1945) on failed entrepreneurs' entry decisions of would be highly informative.

It is also important to address the fact that Studies 2 and 3 use a single-item measure of stigma from the Eurobarometer (EB) survey data (i.e. constituents generally advocating against giving entrepreneurs who close failed businesses a second chance to start new businesses). A number of papers have used this EB single item measure of the stigma of failure. Burchell and Hughes (2006) used the EB question on giving entrepreneurs a second chance as a measure of cultural attitudes toward business failure. Their paper examines the link between country attitudes towards giving entrepreneurs a second chance and economic growth. In another study, Grilo, Thurik, Verheul & Van der Zwan (2008) used the EB measure to examine the relationship between the stigma of failure and the normative position of male and female entrepreneurs in the entrepreneurial process. The study by Grilo and colleagues is very informative. The general finding is that it is easier for men to climb the entrepreneurship ladder and progress throughout the process. This study however does not focus on groups of entrepreneurs who actually fail. In my dissertation research, I show that within the group of entrepreneurs who are more likely to be

stigmatized for business failure, the effects of gender are more complex. In short, the above studies provide some theoretical validation of the EB single-item measure of stigma.

In the literature, there are arguments for and against the predictive value of single-item measures (Bergkvist & Rossiter, 2007; Churchill, 1979). Multiple-item measures can increase reliability. Bergkvist and Rossiter (2007) suggest however that single-item measures can suffice if the attributes or beliefs are concrete. In this study, it is important to emphasize that while the stigma variable is a single-item measure, it is also a direct measure of “national negative attitudes towards giving entrepreneurs a second chance”, i.e. stigma. There are other measures, such as constituents advocating against specific transactions with entrepreneurs who close failed businesses (EOS Gallup Europe, 2004). Future research can explore the relationship between the stigma attitudes of specific stakeholders groups (e.g. venture capitalists, upstream and downstream suppliers) within a country or region and the re-entry of male and female entrepreneurs who shut down failed ventures (Weiner et al., 1988).

Additionally, while the specification of the awareness of disclosure of prior business failures in the regulatory environment is an important antecedent to the behavioral responses of failed entrepreneurs (Ragins, 2008; Goffman 1963), the awareness and influence of the regulatory environment on entrepreneurial activity has been a subject of scholarly debate (Djankov et al., 2002; Klapper et al., 2006; van Stel et al., 2007). Studies 2 and 3 do not examine whether individual failed entrepreneurs had either the capacity or willingness to decode the extent of disclosure of prior business failures in their entry-regulatory environments. Opportunities exist for experimental researchers to examine whether, and to what extent, failed entrepreneurs take this into consideration in making decisions about their future career choices.

The model in Study 2 explains around 5% of the variability in re-entry propensity, indicating that while the cultural and regulatory effects of stigma go some way to explaining entrepreneurs' career choices following business failure, there is still significant variance that they do not account for. This is not surprising. Given the heterogeneity of institutional contexts and individual entrepreneurs, and the serendipitous aspects of new venture creation, it is common for cross-national logistic regression models of the individual-level propensity to engage in entrepreneurial activity to have significant unexplained variability (Arenius & Minniti, 2005; De Clercq & Arenius, 2006). Future research could provide additional insights into this variability by examining how individual and cross-level interactions influence the re-entry choice, mode or form of organizing (Arenius & Minniti, 2005). For example, future research can examine how the interaction of gender and human capital variables such as start-up skill or education can moderate the cultural and regulatory effects of stigma.

Lastly, there are psychological measures of entrepreneurial intentions (Blanchflower et al., 2001; Watson, 2002, 2003; Bird, 1988). The research design of Study 3 included only men and women who had actually pursued entrepreneurship, thus controlling for the effect of several such variables. Nevertheless, some individual gender variance in the supply of entrepreneurship may remain in the data. Future research can examine the differences between failed male and female entrepreneurs in their compensation tactics, strategic interpretations of the environment or their abilities to focus on multiple identities within the entrepreneurship domain (Shih, 2004). Future research can also investigate the suggestion of Godwin and colleagues (2006) that female entrepreneurs who identify themselves as being differentiated in male-dominated contexts may choose to include men in their founding teams for legitimacy. Experimental research designs for this future work would be highly informative.

## CHAPTER 7: STUDY CONCLUSIONS

The re-entry of entrepreneurs following the shutdown of a venture is an important phenomenon; as is the influence of national and institutional pressures on the re-entry decision. Entrepreneurs not only learn from their real experiences (Sarasvathy, 2001); they intentionally adapt their behaviors in future entrepreneurial activities based on biased judgments of positive or negative events (March & Olsen, 1975). This feedback loop in the learning process occurs regardless of whether they exit their ventures through harvest or distress routes (Minniti & Bygrave, 2001). Because entrepreneurs use their subjective perceptions of events to revise assumptions and regardless of the “actual” reason for the exit, it is their subjective perceptions that influence their future entrepreneurial activity (Wiklund & Shepherd, 2008; Politis, 2008). That is why subjective perceptions of promotion or prevention success and failures in prior goal pursuits influence not just when and how entrepreneurs learn from entrepreneurial exits but also whether they will approach or avoid new goal pursuits (Higgins, Friedman, Harlow et al., 2001).

### *Study 1 Conclusions*

Both regulatory focus and regulatory fit have received limited attention thus far in entrepreneurship research. Yet, understanding the regulatory fit or non-fit of business exits can provide important insights into why some people end their entrepreneurial careers subsequent to exit (Ronstadt, 2008) while others choose to become serial or portfolio entrepreneurs (Westhead & Wright, 1998). The suggestion is that there is a strong connection between the regulatory fit of business exits and the future behaviors and cognitions of entrepreneurs (Bardi & Schwartz, 2003). By integrating regulatory fit theory with the existing taxonomy proposed by Wennberg and others (Wennberg, et al., 2010), this study has sought to develop propositions around the cognitive processing of entrepreneurial exits on future entrepreneurial engagement. Future

research might consider testing the propositions in the study to provide empirical evidence that predictions can be made about serial entrepreneurship based upon the cognitive states of entrepreneurs.

### *Study 2 Conclusions*

Failed entrepreneurs will employ strategic responses to manage stigma and respond to their loss of legitimacy. The empirical findings are that cross-national differences in levels of stigma and regulatory disclosure of prior business failures do influence the decisions of failed entrepreneurs to engage in or defer future start-up activity, as well as decisions surrounding their modes of entry. The implications of such decisions extend beyond the individual entrepreneur to affect the diversity and totality of entrepreneurial activity in the country. After all, there are differences in the competencies and behaviors of nascent and experienced entrepreneurs (Westhead & Wright, 1998).

In Study 2, I found that in countries where the levels of stigma and regulatory conveyance of stigma markings were at their highest, the likelihood that failed entrepreneurs would re-enter into entrepreneurial activity was lower. Yet an interesting finding from the empirical study is that there are contexts in which the negative social judgment of failed entrepreneurs interacts with the regulated disclosure of historical business data to increase the likelihood that failed entrepreneurs would re-enter into entrepreneurial activity. In particular, I focus attention on the role of the formal institution as an information carrier to stakeholders who would otherwise be unaware of the stigma markings of individual failed entrepreneurs (Karlsson et al., 2005; Devers et al., 2009); and to the influence of such symbolic information on the future career behaviors of failed entrepreneurs. The finding suggests that the negative social and economic sanctions associated with stigma speak only to one side of the entrepreneurship phenomenon. On the other side,



stigma can function as a stimulus for failed entrepreneurs to defy their illegitimacy and actively seek out and engage in innovative behaviors (Cliff et al., 2006). Hence, stigma can both enhance and diminish the overall diversity of entrepreneurial activities in a country.

### *Study 3 Conclusions*

In Study 3, I developed a theoretical model of differences between male and female entrepreneurs in their response to the stigma of entrepreneurial failure, and tested the model across 23 GEM middle/high income countries using a sample that controls for supply-side gender differences by including only experienced entrepreneurs. I demonstrate that gender differences in the re-entry of ex-entrepreneurs who had experienced business failure create the potential for actual or perceived stigma sanctions. The findings suggest that the national-level stigma of failed entrepreneurs has consequences for both male and female entrepreneurs who exit failed ventures.

The findings also suggest that harsher social sanctions are likely for male entrepreneurs who are not successful than for their female counterparts (Miller & Kaiser, 2001; Shih, 2004). Nonetheless, I find evidence that the gender gap is present in not just the initial entry but also in the re-entry of experienced entrepreneurs (cf. Davis, Babakus, Englis & Pett, 2010; Bem 1993; Stokes & Blackburn, 2002). What these findings demonstrate is that when both men and women entrepreneurs are in the lower structural position that is the normative expectation for women, there is a reduction in gender gap (Alson, Isaksen & Ljunggren, 2006). By demonstrating that the gender gap is reduced (at least temporally) in the context of re-entering ex-entrepreneurs, the conceptual model and empirical findings advance feminist and stigma theories of entrepreneurial intentions and behaviors.

The theoretical framework in the extant literature and the empirical findings support the main hypothesis of this study that gender has a moderating effect on the re-entry of entrepreneurs following business failure. Entrepreneurial experience (success or failure) is typically considered to have a positive influence on the future success of habitual and serial entrepreneurs, particularly for male entrepreneurs (Ucbasaran et al., 2003; Ucbasaran et al., 2010). The results of the studies in this research raise the question of whether the experience of operating a previous business venture can also negatively implicate the start-up and structure of subsequent ones when the normative expectations of male and female entrepreneurs are taken into consideration.

## **CHAPTER 8: THEORETICAL CONTRIBUTIONS**

The demand- and supply-side explanations of business exits and re-entry in this dissertation make a number of important contributions to theory. To date, entrepreneurial exit and re-entry have received limited attention in the literature. This research draws attention to both cognitive and institutional factors that influence the link between business exits and subsequent entrepreneurial engagement. The specific contributions of each study to entrepreneurship theory are discussed next.

### *Study 1 Contributions*

Study 1 contributes to the growing literatures on entrepreneurial exit, serial entrepreneurship and regulatory focus theory (Higgins, 1997, 1998), and also to the emerging research stream in cognitive psychology on regulatory fit theory (Higgins, 2000). It integrates research from the cognitive psychology literature on regulatory focus and fit with research on different business exit routes (Wennberg, et al., 2010). Study 1 develops a conceptual model of cognitive processes that influence how or when entrepreneurs value entrepreneurship as a career choice subsequent to business exits. This conceptual model can be drawn upon and empirically tested. Further, the theoretical framework developed in Study 1 contributes back to cognitive psychology literature, providing insights into the correlations between the self-regulatory systems of entrepreneurs, and their discounting of gains and losses from harvest and distress exits (Halamish, Liberman, Higgins & Idon, 2008).

### *Study 2 Contributions*

Study 2 makes four primary contributions to the literature. First, it extends the emerging research stream on the stigma of organizations and their managers to the context of entrepreneurs who are subjected to negative social judgment from the shut-down of failed businesses. Although

the stigma of individuals has been well researched by sociologists and psychologists, the study of stigma in the organizational setting is a young and emerging research stream in the organization literature (Paetzold et al., 2008). It makes a theoretical distinction between the independent yet related negative social judgments on established organizations and their leaders (Sutton & Callahan, 1987) and the interdependent and often inseparable negative social judgments on entrepreneurs and their businesses. This important distinction motivates the development of a theory of the strategic responses of entrepreneurs to the stigma of failure and the ensuing career outcomes.

Second, building on the literatures of strategic responses to institutional pressures (Oliver, 1991) and stigma-coping tactics (Miller & Major, 2000; Jones et al., 1984), Study 2 develops a theoretical model outlining the different career options for failed entrepreneurs and how stigma differentially bears upon them. To date, I am not aware of any such models of stigmatized entrepreneurs. Clearly, this represents a novel contribution. Third, the study of laws, policies, and procedures of entry regulation that convey information about prior business failures contribute to research examining institutional pressures on the strategic choices of organizations (Oliver, 1991) and the roles of coping strategies in the entrepreneurial process (Levie & Autio, 2011; Singh et al., 2007; Shepherd, 2003). In particular, I focus attention on the role of the formal institution as an information carrier to stakeholders who would otherwise be unaware of the stigma events of individual failed entrepreneurs (Karlsson et al., 2005; Devers et al., 2009); and to the influence of such symbolic information on the future career behaviors of failed entrepreneurs.

Fourth, although contemporary definitions of entrepreneurship separate the act of entrepreneurship (new entry) from the modes of entry (i.e. corporate or autonomous) and the

forms of organizing (i.e. solo or as teams) (Shane & Venkataraman, 2000), little research has been carried out that explicitly distinguishes between the “act” and the “modes” of entrepreneurship. I did this, in the context of institutional pressures exerted upon failed entrepreneurs who are stigmatized, by examining entrepreneurial acts of early and late re-entry separately by modes of re-entry and forms of organizing. Evidence emerged that in countries where the levels of stigma and regulatory conveyance of stigma markings were at their highest, the likelihood that failed entrepreneurs would re-enter into entrepreneurial activity was lower. Yet still, an interesting finding from the empirical study is that there are contexts in which a negative social judgment of failed entrepreneurs interacts with the regulated disclosure of historical business data to increase the likelihood that failed entrepreneurs will re-enter into entrepreneurial activity.

### *Study 3 Contributions*

Study 3 makes four primary contributions to the literature. First, the conceptual model contributes to an emerging research stream in the entrepreneurship literature that examines gender as an indirect or moderator variable to other variables that are explanatory of entrepreneurship engagement and outcomes (Davis et al., 2010; Verheul et al., 2006). Second, the model advances institutional theory by showing that masculine connotations of entrepreneurial economies can have both positive and negative implications for different groups of entrepreneurs at various stages of the entrepreneurial process. By narrowing the sample to exclude novice entrepreneurs, I find evidence that variances in the gender gap across institutional contexts exist not just in initial entry but also in the re-entry of experienced entrepreneurs (cf. Davis et al., 2010; Bem 1993; Stokes & Blackburn, 2002).

Third, I answer the call from entrepreneurship scholars for examinations of the entrepreneurial process from multiple levels of analysis (Davidsson & Wiklund, 2001; Alvarez & Busenitz, 2001; Wiklund & Shepherd, 2008) and across diverse geopolitical spaces (Steyaert & Katz, 2004). Lastly, by demonstrating correlations between the gender gap and the stigma of failure, the conceptual model and empirical findings advance feminist and stigma theories of entrepreneurial intentions and behaviors.

## CHAPTER 9: POLICY AND PRACTICAL IMPLICATIONS

This dissertation research provides insight into the implications of business exits on the entrepreneurial engagement of experienced entrepreneurs. One of its main emphases is on the negative implications of the stigma of failure. This chapter will focus on the discussion on stigma, and how the future engagement of entrepreneurs who close failed businesses can to a large extent be influenced by public policy. I will start the discussion with a simple yet controversial question: *When entrepreneurs exit from their initial attempts to start up or to sustain viable ventures, the question arises: should policymakers encourage or discourage stigmatization?*

The above question is controversial because the answer changes depending on which welfare effects are given precedence by public policy. Prior research on the stigma of business failure and public policy has converged on the idea that it is important to weigh marginal benefits, such as learning and spillover effects of the social acceptance of business failure (McGrath, 1999), against the social costs of the possible harm that illegitimate entrepreneurs may do to future stakeholders (Furuya, 2002; Lee et al., 2007; Audretsch et al., 2007). Along these lines, it has been argued that the stigma of failure has a negative spillover effect in that it reduces the willingness of the general public to enter into entrepreneurship; the higher the stigma of failure, the lower the willingness to enter the business arena (Armour & Cumming, 2008). My dissertation research, however, nuances to “finiteness” this baseline argument and demonstrates the importance of distinguishing between the normative expectations and constraints of informal institutions (i.e. the extent of negative attitudes towards failed entrepreneurs) and the control and constraints on navigating normative expectations imposed by formal institutions (i.e. public records of business failures).

The strength of sentiment of the critical mass in a country is largely determined by informal cultural values; however, many national governments also try to influence the attitudes of the general public to entrepreneurship. Government control over the normative expectations of the public is reflected in regulatory policies and procedures. Further, advances in information technology contribute to the increasingly extensive tracking of business failures. While transparency is usually viewed as positive, this research suggests that it can also have negative aspects when it comes to the re-entry of entrepreneurs in high-stigma institutional contexts.

Furthermore, my research provides insight into the strategic responses of entrepreneurs to variations in institutional pressures. Rather than assuming that entrepreneurs either exit entrepreneurship altogether or repeat the same form of engagement, I have identified a number of alternative re-entry paths and the institutional pressures that influence these choices. For example, I show that the act of entrepreneurship (new entry) is separate from the entrepreneur career choices as to modes (e.g. autonomous start-up, corporate venture) and form (sole versus multiple-owner start-ups) of re-entry. In order to assign adequate policies to deal with the stigma of failure, it is important that policymakers are aware of the correlations between diverse institutional pressures and the strategic means and tactics that they motivate.

With respect to differences in the normative expectations between groups of entrepreneurs, public policy also can play an important role in orchestrating the gender gap in the acceleration or delay of re-entry into entrepreneurship following business failure. While findings of a gender gap in the re-entry of experienced entrepreneurs should be of concern to scholars and policymakers, further investigation using institutional stigma variables reveals that the gender gap in the re-entry of entrepreneurs who have exited from failed businesses is smaller in countries with a low tolerance of failure (as reflected in the stigma attitudes observed at the



national level). By demonstrating that the gender gap is reduced in the actual re-entry entrepreneurs, this dissertation research brings new insight to feminist and stigma theories of entrepreneurial intentions and behaviors (Alson, Isaksen & Ljunggren, 2006).

There are a number of possible explanations for the findings of a reduced gender gap, and each of these can inform entrepreneurship policy. One is that female entrepreneurs acquire stigma-coping resources as they navigate through the normative barriers and challenges that they encounter at various stages of the entrepreneurial process (Shih, 2004, Miller & Kaiser, 2001). A second possible explanation is that there is a downward shift in the structural position of male entrepreneurs to a status that is traditionally a female gender role in entrepreneurial economies. A third explanation is that within the pool of entrepreneurs who exit failed businesses in a country, harsher social sanctions are likely for male entrepreneurs than for female entrepreneurs (Miller & Kaiser, 2001; Shih, 2004).

In short, public policy can play an important role in the acceleration or delay of re-entry into entrepreneurship. Public policies can also encourage alternative pathways to re-entry into entrepreneurship following business exits. The path to stimulating entrepreneurial activity in a country can take a high road that provides incentives (e.g. low stigma of failure) for entrepreneurs to start up as many ventures as possible, or a low road that provides disincentives (e.g. high stigma of failure) to engaging in nonproductive entrepreneurial activities (cf. Nielsen & Sarasvathy, 2011). In this regard, particular attention should be paid to whether public policies are designed with aim of increasing the human capital of entrepreneurs through general education programs or through targeted entrepreneur training programs. A study conducted by Amaral and colleagues (2011), for instance, found that human capital in the form of higher education negatively delays the time to re-entry. On the other hand, exemplar models can be

drawn from “second chance” prisoner re-entry entrepreneurship programs in the United States and the U.K. (Sonfield, 2009). A specific application in this regard would be “second chance” public policies that facilitate the funding of public institutions and not-for-profit entities that provide re-entry assistance, training and mentoring to entrepreneurs who would like a second chance to succeed in meeting cognitive and societal expectations for their careers.

## **CHAPTER 10: CONCLUDING REMARKS**

The overall conclusion that I draw from the findings of the three studies in this dissertation is that the correlation between business exits and future engagement in entrepreneurship activity is more complex than previously recognized in the literature. Both the economic and social realities of business exits and the independent cognitive processes of entrepreneurs play important roles in the act, mode and manner of re-entry after business exits. Because of the associated learning outcomes, prior entrepreneurial experiences have been emphasized in the literature as having a positive influence on the future success of habitual and serial entrepreneurs. My research, however, reveals that the normative and personal expectations of entrepreneurs based on the performance of the businesses they have exited can also have a negative influence on their subsequent entrepreneurial career paths.

It is my hope that this research will stimulate future investigations into the theory, policy and practical implications of variances in the social and cognitive expectations of entrepreneurs who exit businesses. As I have demonstrated in this dissertation, the misalignment of normative expectations to entrepreneurial outcomes affects the demand for different groups of entrepreneurs, and the misalignment of cognitive expectations affects the motivation and thus the potential supply of entrepreneurs to start new ventures.

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