

# **Valuable Learning Experience or Stigmatizing Event?**

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## **Three studies exploring entrepreneurs' lives subsequent to business failure**

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## *Table of contents*

<b>1 Introduction</b> .....	<b>1</b>
1.1 Entrepreneurial failure as a research subject .....	3
1.2 Purpose of this dissertation .....	10
1.3 Structure and scope of this dissertation .....	15
<b>2 The immediate effects of business failure (Study I): The Role of Attributions and Self-Efficacy in the Public Perception of Failed Entrepreneurs</b> .....	<b>27</b>
<b>3 The intermediate effects of business failure (Study II): Constructing Public Narratives of Entrepreneurial Failure</b> .....	<b>56</b>
<b>4 The long-term effects of business failure (Study III): Do you Plead Guilty? Exploring Entrepreneurs' Sensemaking-Behavior Link after Business Failure</b> .....	<b>85</b>
<b>5 Discussion and Conclusion</b> .....	<b>97</b>
<b>Appendix I: Statements of the Co-Authors</b> .....	<b>110</b>

## ***1 Introduction***

Irrespective of size, industry and age of their business, whether or not entrepreneurs founded and operated their venture by themselves or as a team, at some point in time, every one of them will face the decision of whether to exit their business (DeTienne et al., 2015; Wennberg et al., 2010). However, not every entrepreneur is fortunate enough to conduct a successful exit, find a successor, or capitalize on the value they created over time, because a large proportion of businesses are likely to fail (Headd, 2003; Watson & Everett, 1999). Moreover, entrepreneurial activity and entrepreneurial failure are closely intertwined because if we acknowledge that it is uncertainty which creates entrepreneurial opportunities (Knight, 1921), then exploiting these opportunities and enjoying subsequent entrepreneurial success are impossible to realize without there being a possibility of failure (Cardon & McGrath, 1999).

Although entrepreneurial failure evidently represents an integral element of entrepreneurial activity, the dominant view in research and among the general public is that failure is bad, and something to be avoided as it can be costly and painful (Ucbasaran et al., 2013). Many studies focus on the antecedents and factors contributing to the survival and success of a business rather than to failure. McGrath (1999) for instance, reports a considerable anti-failure bias, in that scholars overemphasize the positive outcomes of entrepreneurial activity while neglecting the negative ones. The negative attitude toward (business) failure is not only prevalent in the academic literature but also in everyday life, as a defining characteristic of certain cultures varying not only internationally but also nationally (Cardon et al., 2011; Kuckertz et al., 2015; Lee et al., 2011). This negative sentiment in certain cultures may not only be accompanied by negative effects for the entrepreneur but viewed from a societal perspective, the stigmatization of business failure may hinder entrepreneurial activity (Simmons et al., 2014).

Arguably, the effects of business failure on the individual entrepreneur can be devastating and represent a threat to her or his social identity (Shepherd & Haynie, 2011; Singh et al., 2015). Nevertheless, experiencing (business) failure may also be beneficial and quite functional as it provides an opportunity for the entrepreneur to learn from failure (Corbett et al., 2007; Minniti & Bygrave, 2001) and improve their cognitive skillset and entrepreneurial competence (Cardon & McGrath, 1999). Moreover, experience in recovering from failure may lead to resilience and a sense of self-efficacy (Wood & Bandura, 1989). As entrepreneurs potentially learn from their failures, and act on their extended knowledge base, they have the potential to advance whole economies irrespective of whether they decide to reenter entrepreneurship or not (Hoetker & Agarwal, 2007; Knott & Posen, 2005). Indeed, entrepreneurial experience, be it negative or

positive, goes along with progress on the experience curve and thus contributes to managing future tasks and activities more successfully (Cope, 2011; Politis, 2005).

The purpose of this dissertation is to combat the anti-failure bias prevalent in the academic literature, to provide a nuanced assessment of the phenomenon, and to contribute to this important stream of research by investigating how business failure affects the subsequent lives of entrepreneurs. Building upon multiple methodological approaches, I seek to provide some new insights on this important phenomenon. More specifically, I will explore and analyze the stigma associated with business failure, the way entrepreneurs make sense of and explain their previous entrepreneurial endeavor, and finally how the sensemaking efforts of failed entrepreneurs can signal their future decision making and behavior. In sum, entrepreneurs' lives after business failure represent an excellent arena to study relevant and diverse phenomena. While much attention has been paid to the negative aspects associated with business failure, this dissertation attempts to provide a balanced assessment of entrepreneurial failure, one guided by the following research question:

*How Does Business Failure Affect the Subsequent Lives of Entrepreneurs?*

The remainder of this introductory chapter proceeds as follows: In Section 1.1 I will briefly discuss different definitions scholars apply when they investigate business failure. This is because there is no uniformly accepted definition of what constitutes failure in the entrepreneurship literature. Moreover, I will review the current state of the literature concerned with entrepreneurial failure highlighting how this research subject can be meaningfully dissected and framed. This is followed by an overview of the sub-research questions guiding this dissertation in Section 1.2. Finally, I conclude this introductory chapter by providing an overview of the empirical studies presented and by highlighting the contributions to the academic literature (Section 1.3).

## 1.1 Entrepreneurial failure as a research subject

To ensure comparability with other studies investigating business failure and also to clarify the processes and outcomes studied in this dissertation, it is important to provide a clear definition of the business failure phenomenon in entrepreneurship research. Although broadly agreed definitions can be seen as the foundation of any research subject, framework, and even academic field (Davidsson, 2003; Kuckertz & Mandl, 2016), there is no uniformly accepted definition of what constitutes business failure. On the contrary, scholars apply different definitions depending on their individual research context ranging from a narrow restrictive view on business failure (e.g., bankruptcy) to a broader less permissive perspective (e.g., discontinuity of ownership) (Coad, 2014; Ucbasaran et al., 2013; Watson & Everett, 1993).

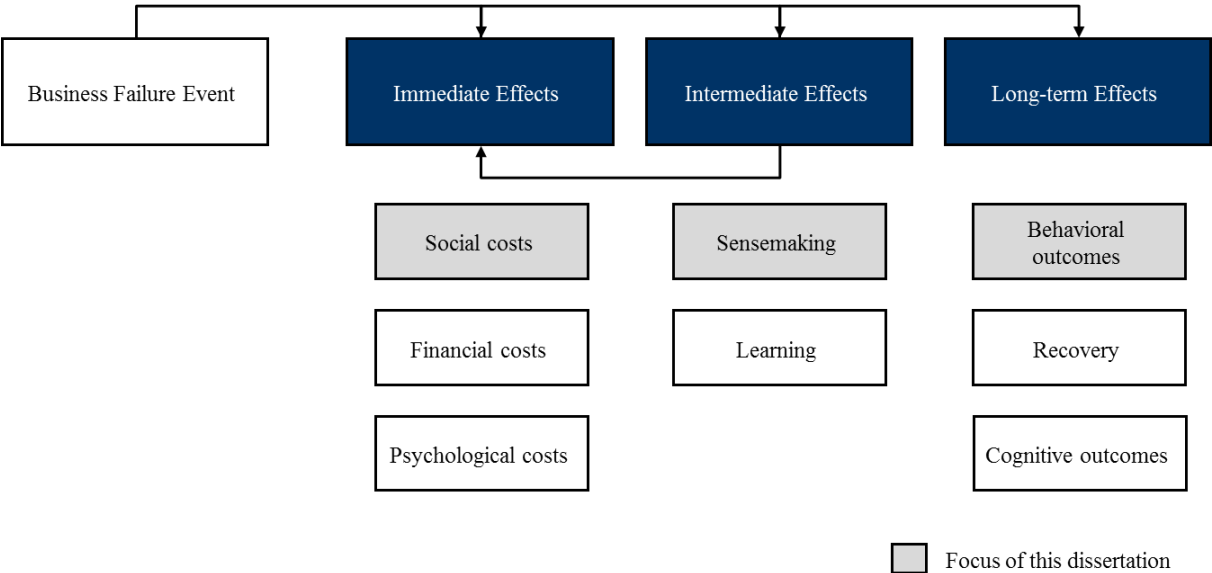
While broad definitions of business failure such as *discontinuity of ownership* may have the drawback of confounding business failure with exit in general (Wennberg et al., 2010), narrow definitions such as *bankruptcy* appear too permissive and do not account for specific failure indications such as a reasonable return for investors or income for the owner (Coad, 2014; Ucbasaran et al., 2013). Building upon these two extremes, scholars have sought alternative ways to solve the definitional issues by including either performance-related measures (e.g., insolvency or market viability) (Coelho & McClure, 2005; Shepherd, 2003) or entrepreneurs' expectations as an important threshold consideration (Gimeno et al., 1997) to better capture the business failure phenomenon (Ucbasaran et al., 2010; 2013). To provide common grounds for this dissertation, I define business failure according to Ucbasaran et al. (2013, p. 175) as "*the cessation of involvement in a venture because it has not met a minimum threshold for economic viability as stipulated by the entrepreneur.*" This definition appears particularly appropriate for the purposes of this study because it emphasizes the decision of an entrepreneur to cease operations, thereby avoiding the drawbacks of the narrow or broad definitions mentioned above.

Building upon the above mentioned definition of business failure, I will now turn to the current state of the literature investigating the effects of business failure on entrepreneurs' subsequent lives. In general, studies on entrepreneurial failure have predominantly focused on the causes leading to firm failure (e.g. Michael & Combs, 2008; van Gelder et al., 2007) and the accompanied consequences (e.g., Cope, 2011; Singh et al., 2007). Moreover, the few studies that have been conducted to date can be further distinguished based on whether they investigate failure at the firm level (e.g., Crutzen & van Caillie, 2010; Everett & Watson, 1998) or the individual level (e.g., Cardon & Yamakawa, 2015; Jenkins et al., 2014). As the focus of this

dissertation rests upon the subsequent effects of business failure on the individual entrepreneur, I limit the review of the literature accordingly.

Ucbasaran et al. (2013) suggested that the consequences of business failure might be studied most appropriately from a process perspective consisting of three interrelated stages ultimately influencing entrepreneurs’ lives over time (fig. 1-1). The first stage is concerned with the immediate effects of business failure on entrepreneurs, that is, the psychological, financial, and social costs arising. Building upon these immediate consequences associated with business failure, the second stage pertains to how entrepreneurs make sense of business failure and learn from this potentially painful experience, one which may ultimately influence them on an affective, cognitive, and behavioral level over time (stage 3).

**Figure 1-1:** Organizing scheme of entrepreneurs’ lives after business failure (adapted from Ucbasaran et al., 2013)



It is important to note that these three stages are not rigid or closed, on the contrary, they are interrelated, time-specific and highly dependent on the individual context in which business failure occurs. In the following, I will describe each of the three stages in more detail, starting with the immediate effects associated with business failure, that is, the psychological, financial, and social costs for entrepreneurs.

### *Immediate Effects of Business Failure*

First, entrepreneurs are emotionally attached to their business (Ucbasaran et al., 2006), and when failure happens, they typically experience a series of negative emotions or psychological symptoms such as shame and guilt (e.g., Shepherd, 2003; Singh et al., 2007). The negative emotional response to the loss of a business has been labeled grief (Shepherd, 2003; Jenkins et al., 2014), and the extent to which entrepreneurs experience grief has been theorized to depend on individual characteristics such as emotional intelligence (Shepherd, 2009) and entrepreneurial experience (Ucbasaran et al., 2010). More specifically, Jenkins et al. (2014) found that the way failure is perceived in terms of loss of self-esteem and financial loss reveals valuable implications for how entrepreneurs feel after their failure experience. The extent of entrepreneurs' emotional costs may also influence their subsequent motivation in various ways. On the one hand, scholars report that failed entrepreneurs may hesitate when it comes to adopting new ideas or taking risks, they lack confidence in their decision making or decide to permanently withdraw from entrepreneurship (Shepherd, 2003; Politis & Gabrielsson, 2009; Cardon & McGrath, 1999). On the other hand, experiencing business failure can also increase entrepreneurs' motivation when failure occurs in a sphere which is relevant to an individual's self-definition (Brunstein & Gollwitzer, 1996; Cardon & McGrath, 1999).

Entrepreneurs may additionally face financial costs (e.g., loss of personal income or debt) whereas the magnitude can vary depending for example on the institutional setting (e.g., bankruptcy laws) (Lee et al., 2011; Simmons et al., 2014). In anticipation of business failure and the associated costs, entrepreneurs may be prone to escalate commitment and delay business failure leading to increased financial costs when business failure eventually occurs. Besides the escalation of commitment, other studies have introduced real options reasoning (McGrath, 1999) and the "affordable loss principle" (Sarasvathy, 2008) to better understand the relationship between business failure and the subsequent financial costs. While real options reasoning posits that comparably small staged investments in ventures are used to manage uncertainty and when uncertainties cannot be resolved, the entrepreneur invests less in the business as it does not appear viable, the affordable loss principle points to entrepreneurs estimating the amount of time, effort and money they are willing to put at risk and deciding what they are willing to give up to pursue a certain course of action (Ucbasaran et al., 2013).

In addition to the financial and psychological costs, existing research reports diverse social costs entrepreneurs need to address as a consequence of the failure of their former business. In this regard, business failure has been found to negatively affect not only professional but also



personal relationships potentially leading to withdrawal and self-imposed distancing behavior (Cope, 2011; Singh et al., 2007, 2015). Cope (2011), for instance, mentions the breakdown of close relationships and marriages following business failure. Moreover, entrepreneurs may face societal pressures (e.g., discrimination with regards to future employment opportunities) eventually leading to increased social costs for failed entrepreneurs. In this regard, business failure can also trigger stigmatization depending on the institutional and cultural context (Efrat, 2006; Kirkwood, 2007; Sutton & Callahan, 1987). Singh et al. (2015), for example, explored how the stigma of failure affects entrepreneurs on emotional, cognitive, and behavioral levels and argued that stigmatization may be characterized best as a complex process that can start even before the actual failure event.

### *Intermediate Effects of Business Failure*

Second, coping with these immediate effects of business failure as well as determining and understanding the cause of those failures is evidently an important aspect for failed entrepreneurs in their subsequent lives. Building on stress theory (Folkman, 1984), Byrne and Shepherd (2015) identified emotion-focused and problem-focused coping strategies employed to deal with the consequences associated with business failure. While problem-focused coping directs thoughts and actions toward the roots of the problem causing distress, emotion-focused coping pertains to processing the emotions that accompany a stressful experience (Carver et al., 1989; Lazarus & Folkman, 1984). Business failure provides a clear signal that something went wrong or no longer works thus revealing valuable cause-effect relationships that can help entrepreneurs to recognize and interpret their previous entrepreneurial experience (Cardon et al., 2011; Sitkin, 1992). In this regard, existing research within the field investigates two interrelated socio-psychological processes: sensemaking in general and learning from failure more specifically.

Sensemaking has been described as an interpretative process in which individuals assign meaning to ongoing occurrences. It incorporates besides the distinctive elements of scanning and interpretation also learning (Gioia & Chittipeddi, 1991). It is important to note that sensemaking activities are grounded on plausibility as opposed to accuracy and have been found to be particularly important in complex environments characterized by ambiguous information (Cardon et al., 2011; Thomas et al., 1993; Wagner and Gooding, 1997). Rather than being a rational, unbiased process, it is a process driven by individual perceptions, preexisting personal identities and entrepreneurs' own interpretation of the world (Ucbasaran et al., 2013; Weick, 1995; Yamakawa & Cardon, 2015). Determining the reasons for business failure is fairly

subjective, whereas entrepreneurs, stakeholders, the media and the general public might ascribe business failure to different causes depending on their individual sensemaking processes (Mantere et al., 2013; Wiesenfeld et al., 2008).

In line with a sensemaking perspective, which emphasizes individuals' subjective interpretation of learning, Byrne and Shepherd (2015, p. 376) define learning from failure as "the sense that one is acquiring, and can apply, knowledge and skills from their failure experiences." Scholars assert that entrepreneurs who experienced business failure bear the potential to learn from this experience and to alter their existing knowledge of how to effectively operate and manage their own business (Shepherd, 2003; Sitkin, 1992; Yamakawa et al., 2015). Experiencing business failure can promote learning because entrepreneurs are more likely to understand what led to the failure of their business, thus informing and motivating a change to their mental models (Minniti & Bygrave, 2001; Politis, 2005; Ucbasaran et al., 2009). In this regard, learning from failure is facilitated for entrepreneurs possessing an appropriate cognitive toolset consisting for example of opportunity prototypes and an intuitive cognitive style (Mueller & Shepherd, 2015).

Overall, attributions and emotions have been found to be particularly relevant in failed entrepreneurs' learning and sensemaking processes following business failure (Ucbasaran et al., 2013). Attribution theory (Heider, 1958; Weiner, 1985) deals with the perceived causes that many apply to events involving themselves or others, that is, attributions could be characterized as a sensemaking variant through which individuals explain their own behavior, the actions of others, and events in the world (Cardon et al., 2011). Scholars applying an attributional perspective have found that cognitive biases exist (e.g., self-serving bias) (Heider, 1958; Rogoff et al., 2004; Zacharakis et al., 1999), which might have critical implications for entrepreneurs' learning processes from failure. Thus, while denying responsibility for the failure event favors the self (Ford, 1985; Rogoff et al., 2004; Sutton & Callahan, 1987), it may at the same time inhibit learning from failure (Yamakawa & Cardon, 2015) and also translate into relatively poor performance in subsequent ventures (Yamakawa et al., 2015).

While discounting their role in the failure event may result in suboptimal learning outcomes for entrepreneurs, this process is also driven by entrepreneurs' emotional state which can adversely affect learning. Shepherd (2003) argued that the negative emotions stemming from business failure may negatively affect learning as it can interfere with an individual's attention when processing information. While research on this topic to date has focused on the negative emotions generated by this negative event, Byrne and Shepherd (2015) highlighted the importance of both positive and negative emotions in entrepreneurs' sensemaking processes in

response to business failure. While strong negative emotions may motivate making sense of a loss, they found that positive emotions may provide the cognitive resources necessary to facilitate and motivate making sense of the failure event.

### *Long-term Effects of Business Failure*

Finally, business failure also affects entrepreneurs in the long term according to how they made sense out of their previous entrepreneurial endeavor and managed the various costs associated with business failure (Ucbasaran et al., 2013). Previous work on the long-term effects of business failure falls into three dominant streams of literature. The first pertains to the question of how entrepreneurs recover from business failure (Cope, 2011; Shepherd, 2003). Building upon the psychological literature on grief, Shepherd (2003) proposed that a combination between loss orientation (i.e., experiencing the negative feelings attached to the loss) and restoration orientation (i.e., a mix of avoidance tendency and proactively turning toward secondary sources of stress) may facilitate both: quicker recovery, as well as more effective learning from business failure. Cope (2011) extends the work of Shepherd (2003) by introducing another stage, the so-called phase of “higher-order restoration”, in which failed entrepreneurs attempt to move on from their business failure to pursue and exploit other opportunities.

Another stream of literature is concerned with the cognitive outcomes of business failure (Hayward et al., 2010, Ucbasaran et al., 2010). In this regard, scholars report cognitive differences between entrepreneurs who reentered entrepreneurship after the failure of their former business and those entrepreneurs who decided to do otherwise (Westhead & Wright, 1998; Westhead et al., 2005; Schutjens & Stam, 2006). Ucbasaran et al. (2009) found, for instance, that entrepreneurs who experienced business failure generally displayed a higher level of entrepreneurial alertness, that is, they identified more opportunities in a specific period than those with no prior business failure experience. Moreover, Hayward et al. (2010) provided some insights into the cognitive construct of optimism, which apparently not only motivates entrepreneurs to start up a business but may also play an important role in coping with and recovering from business failure.

Finally, failed entrepreneurs not only display a higher degree of entrepreneurial alertness, but more importantly, research suggests that they exhibit strong intentions to reenter entrepreneurship and actually exploit the opportunities they identify (Schutjens & Stam, 2006; Hessels et al., 2011; Ucbasaran et al., 2009). Research investigating the behavioral outcomes following business failure is predominantly concerned with new venture performance as it may

serve as a key indicator of whether learning has occurred. While Ucbasaran et al. (2006) did not find any performance differences between businesses operated by entrepreneurs who had previously experienced business failure and those who had not, Yamakawa et al. (2015) found more recently in a more nuanced examination of the phenomenon that attributions may indicate new venture growth. They also found that the number of business failures does not significantly influence new venture performance, a finding that challenges the notion of business failure always being beneficial for the entrepreneur in terms of enhanced performance.

## **1.2 Purpose of this dissertation**

As illustrated in the previous section, business failure can be studied as a process consisting of multiple stages uniting a great variety of phenomena ultimately resulting in affective, cognitive and behavioral outcomes for failed entrepreneurs. This dissertation attempts to reflect and account for this process by exploring selected phenomena from each of the three stages determining entrepreneurs' lives after business failure hereby trying to convey a comprehensive picture on this important phenomenon. As a consequence, the above mentioned research question can be refined and broken down into three separate issues that ultimately form the basis for this dissertation.

The first addresses the immediate and immanent effects of business failure and focuses on the underlying socio-psychological processes ultimately leading to social costs for failed entrepreneurs arising from subsequent stigmatization and discrimination, the second is concerned with exploring the public sensemaking and self-presentation efforts of failed entrepreneurs, that is, the nature of the narratives entrepreneurs construct after business failure, and the final issue pertains to the specific relationship between entrepreneurs' perceived causes of business failure and their subsequent behavior in the form of reentering entrepreneurship or seeking an entirely different career path. In the following paragraphs, I will address each of these issues in more detail.

First, existing research reports that entrepreneurs may face stigmatization as a result of the failure of their business. That stigmatization can eventually lead to increased social costs in the subsequent lives of entrepreneurs who experienced business failure (e.g., discrimination with regards to future employment opportunities) (Cope, 2011; Singh et al., 2015; Sutton & Callahan, 1987). In general, stigma is defined as a mark of infamy or disgrace, something deeply discrediting for the individual bearing the stigma which may affect a person's life in various ways including, but not limited to, income, housing, and health (Goffman, 1963; Link & Phelan, 2001; Singh et al., 2015).

Indeed, the stigma associated with business failure can trigger negative media coverage and criticism (Cardon et al., 2011), reduced access to resources (Cope, 2011; Sutton & Callahan, 1987) and may ultimately deter entrepreneurs from reentering entrepreneurship (Kirkwood, 2007; Politis & Gabrielsson, 2009; Simmons et al., 2014). This in turn might negatively affect economic progress and more importantly the dissemination of learning from failure (Cope, 2011; Cope & Watts, 2000; Singh et al., 2007). As a consequence, the societal attitude toward business failure in general as well as stigma associated with business failure more specifically

has recently also captured the attention of policy makers starting initiatives such as the European Commission's *Failure Aversion Change in Europe* (FACE) project to mitigate the negative effects for entrepreneurs stemming from business failure (FACE, 2015).

Overall, existing research within the field indicates that the stigma associated with business failure is a strongly negative experience for the individual entrepreneur (Cardon et al., 2011; Singh et al., 2007, 2015). While we do have some insights into the societal level effects of stigma, research exploring the underlying mechanisms and entrepreneurs' reactions and also the management of the societal pressures in response to stigma remains scarce (Ucbasaran et al., 2013; Shepherd & Patzelt, 2015; Singh et al., 2015). Thus, the few studies conducted to date, fall under two dominant streams of research (Singh et al., 2015).

The first stream of literature is primarily concerned with the socio-cultural aspects of stigma (Begley & Tan; 2001; Cardon et al., 2011) and explores for example how stigma varies culturally and how it can affect subsequent entrepreneurial activity (Kirkwood, 2007; Vaillant & Lafuente, 2007). Second, scholars investigate the stigma of bankruptcy more specifically (Lee et al., 2011; Shepherd & Haynie, 2011; Simmons et al., 2014). Efrat (2006) found, for instance, that bankruptcy laws (that vary by territory) may affect the societal attitude toward business failure. More recently, scholars have begun to explore the underlying mechanisms of these societal level effects leading to the stigmatization of failed entrepreneurs (Shepherd & Patzelt, 2015; Singh et al., 2015; Wiesenfeld et al., 2008).

Building upon the most recent developments within the field, I provide some new insights on the micro-level mechanisms and processes ultimately determining the degree of stigmatization assigned to failed entrepreneurs. By doing so, I seek to enhance our understanding of how observers arrive at their judgments of failed entrepreneurs based on the characteristics of the failure event as well as those of the observer. By acknowledging attributions as effective means to shape the impressions of others and investigating the role of self-efficacy beliefs, I explore how entrepreneurs can respond so as to mitigate the social costs and societal pressures in response to business failure. In sum, I attempt to answer the following two research questions:

*(1) How do observers arrive at their judgments of a failed entrepreneur when business failure is framed as either internal or external to the entrepreneur, presented as controllable or uncontrollable, and as a temporary or permanent occurrence?*

*(2) Do observers' judgments vary depending on their self-efficacy beliefs?*

Second, as mentioned earlier, determining the cause of business failure as well as learning and making sense out of their previous entrepreneurial experience are important challenges for entrepreneurs and may determine not only their recovery process but also have considerable implications for their future activities and career paths (Hayward et al., 2010; Ucbasaran et al., 2009). Depending on various contextual factors (e.g., the audience) and the extent of the failed entrepreneur's psychological, financial and social costs, entrepreneurs offer a wide range of explanations for the failure of their business (e.g., Cardon et al., 2011; Zacharakis et al., 1999). These narratives have been found to be an effective means of coping with failure as they allow entrepreneurs to reflect and give meaning to occurrences that may ultimately determine their perceived cause of business failure as a result of their individual sensemaking efforts (Brown et al., 2008; Byrne & Shepherd, 2015; Mantere et al., 2013).

Entrepreneurs as well as their failures differ in various ways, and these discrepancies are likely to be reflected in the narrative content entrepreneurs provide after business failure (Byrne & Shepherd, 2015). Thus, failure narratives represent an excellent forum for entrepreneurs not only to communicate why they have failed in the past, but to some extent also reveal the cognitive and emotional side of entrepreneurs (e.g., Byrne & Shepherd, 2015; Mantere et al., 2013; Wolfe & Shepherd, 2015). Mantere et al. (2013) argued, for instance, that narratives serve two important functions, that is, the emotional process of grief recovery and the cognitive process of self-justification. Further, Byrne and Shepherd (2015), explored how different emotional reactions evident in entrepreneurs' failure narratives influence their ability to make sense of their past entrepreneurial experience.

While there is some evidence that narratives are an integral element for processing failure, less is known about the very nature of failure narratives and their role in self-presentation. Thus, building upon the narrative and failure literature, I explore in this study the very nature of these failure narratives presented to a broad audience. More specifically, I investigate, based on the linguistic and psychological inventory evident within the failure narratives, whether they share common patterns and also how these common patterns may predict the outcomes of entrepreneurs' individual sensemaking processes, that is, their attributions of causality. Overall, I am guided by the following research question:

*Do public failure narratives share common patterns and how are they related to their attributions of causality?*

Finally, some individuals are able to effectively handle the costs associated with business failure and start up subsequent businesses (Hayward et al., 2006; Hessels et al., 2011), while others do not come back from business failure and seek an entirely different career path. As mentioned earlier, failed entrepreneurs have the potential to learn from their failures eventually, resulting in an extended knowledge base and valuable experience irrespective of whether they decide to reenter entrepreneurship or not (Cope, 2011). However, as business failure may result in improved new venture performance depending on entrepreneurs' individual processing of their past experience (Yamakawa et al., 2015), entrepreneurs should build on their enhanced competences and previous entrepreneurial experience by starting up another venture. In this regard, it is important to understand how coping and making sense out of business failure affects future behavior to reveal in greater detail what drives entrepreneurs to remain entrepreneurial despite their potentially painful and costly previous entrepreneurial experience.

There is a vast body of evidence that businesses set up by habitual (serial or portfolio) entrepreneurs differ substantially from businesses led by novice entrepreneurs (Westhead & Wright, 1998; Westhead et al., 2005). After business failure, habitual entrepreneurs and their novice counterparts have experienced every aspect of starting, owning, managing, and even losing their business. However, only repeat entrepreneurs can rely on more than one positive or negative experience from previous entrepreneurial efforts. This in turn may influence the extent to which they are affected by the psychological, social, and financial costs, their sensemaking processes, and also their subsequent willingness to reengage in entrepreneurial activity or not (Politis, 2008; Politis & Gabrielsson, 2009).

Until recently, scholars investigating the relationship between business failure and future entrepreneurship have not commented specifically on the so-called sensemaking-behavior link and have instead focused on new venture performance, on the grounds that it can serve as a key indicator for learning from failure (Mueller & Shepherd, 2014; Yamakawa et al., 2015; Yamakawa & Cardon, 2015). As sensemaking involves retrospectively linking events to possible causes, individuals assign meaning to occurrences that may in turn not only trigger affective and cognitive but also behavioral consequences, that is, determining entrepreneurs' future course of action depending on the perceived causes for business failure (Ford, 1985; Gatewood et al., 1995; Shaver & Scott, 1991). In this regard, the explanations entrepreneurs offer may serve as the starting point for subsequent decisions before ultimately arriving at the decision to reenter entrepreneurship or not (Gatewood et al., 1995; Shaver & Scott, 1991).



Overall, I seek to provide a nuanced examination of the underlying mechanisms between the way business failure is attributed and future entrepreneurship. More specifically, this dissertation explores the behavioral differences of habitual and novice entrepreneurs depending on their individual sensemaking outcomes, that is, what they perceive to be the causes of their business failure. Hence, this study is guided by the following research question:

*Do novice, serial, and portfolio entrepreneurs differ in terms of their behavioral response when attributing the perceived cause of failure to either internal or external factors, presenting it as controllable or uncontrollable, or assessing the cause of their business failure to be permanent or temporary?*

### **1.3 Structure and scope of this dissertation**

This dissertation consists of three empirical studies and covers a broad range of phenomena and constructs in the life of entrepreneurs following business failure including, but not limited to, the social-psychological processes of stigmatization, sensemaking, and the behavioral outcomes of abandoning entrepreneurial activity and reentering entrepreneurship after business failure. The analysis of these phenomena as they affected entrepreneurs' lives after the failure of their businesses employed several methods and diverse literatures (see tab. 1-1). Next, I will present an overview of the following chapters by briefly introducing the general topic and highlighting the main findings.

Chapter 2<sup>1</sup> is dedicated to the immediate effects of business failure, that is, the social costs entrepreneurs are likely to experience as a direct consequence of the stigma associated with business failure. I develop and test a model based on attribution theory (Heider, 1958; Weiner, 1985, 2000) and self-efficacy literatures (Bandura, 2012; Chen et al., 2004; Eden, 1988) to explore how the general public arrives at their judgments when tasked with evaluating failed entrepreneurs (Shepherd & Patzelt, 2015). By analyzing a large sample of 6,152 judgments nested within 769 observers using Conjoint Analysis, I find that observers judge failed entrepreneurs more negatively when they perceive them to be either personally involved in the actual failure event, not in control of it, or when business failure is presented as a stable event (as in one likely to recur). The relative strength of these effects varies depending on whether business failure is attributed to a stable (recurrent) or unstable (non-recurring) event. Finally, I find that high self-efficacy beliefs lead to a more positive evaluation of entrepreneurs who experienced business failure. I believe, that the results presented in this chapter may have important implications for the public perception of failed entrepreneurs and thus pave the way for further research investigating the stigmatization of elites in general (Wiesenfeld et al., 2008) and entrepreneurs more specifically (Singh et al., 2007, 2015). Moreover, the results presented in this chapter should also enhance our understanding of the effectiveness of impression and stigma management tactics identified in previous research (Sutton & Callahan, 1987; Shepherd & Haynie, 2011; Tomlinson & Mryer, 2009) and the role of self-efficacy beliefs in interpersonal settings.

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<sup>1</sup> This section is based on Mandl (2015) and is currently under review (2<sup>nd</sup> round) at an A-ranked journal according to VHB JOURQUAL 3. It has also been accepted for presentation in a refereed paper session at the International Council for Small Business (ICSB) World Conference, June 6-9, 2015 in Dubai, UAE and the Australian Centre for Entrepreneurship Research Exchange (ACERE), February 2-5, 2016 in Gold Coast, Queensland, Australia.

**Table 1-1:** Summary of the Studies presented in this Dissertation

Study	Research question(s)	Theme	Literature / theory base	Method	Key Findings
<b>Study I:</b> The Role of Attributions and Self-Efficacy in the Public Perception of Failed Entrepreneurs	(1) How do observers arrive at their judgments of a failed entrepreneur when business failure is framed as either internal or external to the entrepreneur, presented as controllable or uncontrollable, and as a temporary or permanent occurrence? (2) Do observers' judgments vary depending on their self-efficacy beliefs?	Stigma, social costs, and their management	Attribution theory and self-efficacy	Quantitative: 6152 judgments obtained from 769 individuals	<ul style="list-style-type: none"> <li>- Observers judge failed entrepreneurs more negatively when they perceive them to be either personally involved in the actual failure event, not in control of it, or when business failure is presented as a potentially recurring event.</li> <li>- The relative strength of these effects varies depending on whether business failure is presented as a stable or unstable event.</li> <li>- Observers who hold strong self-efficacy beliefs evaluate failed entrepreneurs more positively than those who possess low levels of self-efficacy.</li> </ul>
<b>Study II:</b> Constructing Public Narratives of Entrepreneurial Failure	Do public failure narratives share common patterns and how are they related to their attributions of causality?	Sensemaking and impression management	Attribution theory, narrative theory, and impression management	Qualitative and quantitative: 118 public narratives constructed by entrepreneurs who have experienced business failure	<ul style="list-style-type: none"> <li>- Five distinct public narratives of entrepreneurial failure could be identified based on (1) different levels of emotion and problem-focused content, (2) focus on individual versus collective responsibility, (3) varying temporal orientations, and (4) attributions of the causes for failure to internal and external factors.</li> </ul>
<b>Study III:</b> Do you Plead Guilty? Exploring Entrepreneurs' Sensemaking-Behavior Link after Business Failure	Do novice, serial and portfolio entrepreneurs differ in terms of their behavioral response when attributing the perceived cause of failure either to internal or external factors, rendering it controllable or uncontrollable, or assessing the cause of their business's failure to be permanent or temporary?	Sensemaking and behavioral outcomes	Attribution theory	Qualitative and quantitative: 111 novice and habitual entrepreneurs who have experienced business failure	<ul style="list-style-type: none"> <li>- The three attributional dimensions of locus of causality, controllability, and stability explain a large share of entrepreneurs' subsequent behavior in the form of abandoning entrepreneurial activity after business failure.</li> <li>- Communalities and differences between novice, serial and portfolio entrepreneurs exist and depend on their attributions of causality.</li> </ul>

Following the immediate aftermath of business failure, I explore in Chapter 3<sup>2</sup> how entrepreneurs cope with the psychological costs, the societal pressures, and potential public stigma stemming from business failure. This chapter examines the narratives entrepreneurs construct in response to the failure of their former business in great detail by empirically identifying common patterns within their narrative accounts using latent semantic analysis (Landauer et al., 1998; Sidorova et al., 2008). By analyzing the attributions as well as the linguistic and psychological inventory evident within the shutdown notices obtained from the homepage of discontinued ventures, I identify five distinct public narratives of entrepreneurial failure based on (1) different levels of emotion and problem-focused content, (2) focus on individual versus collective responsibility, (3) varying temporal orientations, and (4) attributions of the causes for failure to internal and external factors. Apparently, entrepreneurs sometimes employ causal failure attributions strategically to invoke a certain image of themselves. The action may be prompted by their individual cognitive and emotional needs and by their surrounding social expectations. In sum, this study contributes to the narrative literature on entrepreneurial failure by providing a systematic and comprehensive picture on failure narratives, and illustrating their role not only in psychologically processing business failure (Byrne & Shepherd, 2015; Mantere et al., 2013; Singh et al., 2015) but also in self-presentation to cope with societal pressures (Sutton & Callahan, 1987; Tomlinson & Mryer, 2009).

Chapter 4<sup>3</sup> addresses the long-term effects of business failure, that is, how entrepreneurs' perceived causes of business failure might affect future decision making and behavior. More specifically, this study explores the so-called sensemaking-behavior link and further investigates how attributions of business failure affect novice, serial, and portfolio entrepreneurs' tendency to remain entrepreneurial or to abandon future entrepreneurship. Using Qualitative Comparative Analysis (Ragin, 2008) and building upon an attributional perspective (Heider, 1958; Weiner, 1985), I find that the three attributional dimensions of locus of causality, controllability, and stability indeed explain a large proportion of entrepreneurs' subsequent behavior in the form of abandoning entrepreneurial activity after business failure. Additionally, I could identify communalities and differences between the different types of entrepreneurs.

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<sup>2</sup> This section was awarded the best paper award Europe at the ICSB World Conference, June 6-9, 2015 in Dubai, UAE; it is based on Mandl, Kibler, Kuckertz & Kautonen (2015) and is currently under revision (3rd round) at an A-ranked journal according to VHB JOURQUAL 3; It was also accepted for presentation in a refereed paper session at the G-Forum, October 8-9, 2015 in Kassel, Germany.

<sup>3</sup> This section is based on Mandl, Berger & Kuckertz (2016) and has been published in the *Journal of Business Venturing Insights*, Volume 5, 9-13, <http://www.journals.elsevier.com/journal-of-business-venturing-insights>; it has also been accepted for presentation in a refereed paper session at the Australian Centre for Entrepreneurship Research Exchange (ACERE), February 2-5, 2016 in Gold Coast, Queensland, Australia.

While novice and serial entrepreneurs abandon entrepreneurial activity after attributing business failure to permanent yet controllable events, portfolio entrepreneurs decide against starting another venture when additionally claiming personal involvement in the failure event. This points to a general inability of entrepreneurs, irrespective of their previous entrepreneurial experience, to process the reasons for business failure, when they view a particular failure event as a result of rather enduring yet controllable forces, for example their perceived inability to create a sustainable business. Interestingly, entrepreneurial experience does not seem to overcome this failing, thus potentially indicating the severity of these causes for business failure. In addition, I found differences in the decision to seek a different career path exist depending on whether entrepreneurs attribute the cause of business failure to either internal or external, controllable or uncontrollable, and permanent or temporary factors. In sum, this study extends the stream of habitual entrepreneurship literature analyzing the differences between entrepreneurs who reenter entrepreneurship after the closure of their former business, and those ex-entrepreneurs who do not start another venture after their previous entrepreneurial endeavor (Hessels et al., 2011; Schutjens & Stam, 2006; Ucbasaran et al., 2006). Additionally, this nuanced examination of the relationship between business failure and future entrepreneurship may contain valuable implications for the sensemaking and failure recovery literature as well as for attribution theory.

To conclude this dissertation, Chapter 5 offers a nuanced appreciation and discussion of its main findings by briefly highlighting the contributions for the field of entrepreneurship in general, the emerging stream of entrepreneurial failure more specifically, and attribution theory. Overall, this dissertation provides a balanced and comprehensive picture of entrepreneurs' lives after business failure. The results presented may represent an important step in the theory building process to better understand entrepreneurs' reactions in response to the failure of their business. I am confident, that the contributions of this dissertation pave the way for further empirical studies investigating the diverse effects of business failure on entrepreneurs' subsequent lives.

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## ***2 The immediate effects of business failure (Study I):***

### ***The Role of Attributions and Self-Efficacy in the Public Perception of Failed Entrepreneurs***

#### **Abstract**

Building on attribution theory and the self-efficacy literature, this study explores observers' judgmental reactions toward entrepreneurs who have experienced business failure. The study applies conjoint analysis to reveal that individuals judge failed entrepreneurs more negatively when they perceive them to be either personally involved in the failure event, not in control, or when business failure is presented as a stable event, in other words, one that is likely to recur. Such negative judgments potentially lead to increased social costs stemming from subsequent stigmatization. Moreover, the relative strength of these effects varies depending on whether business failure is presented as a stable or unstable event (i.e., one unlikely to recur). Finally, observers' self-efficacy beliefs explain the variance in their judgment approaches. Apparently, exhibiting a strong sense of personal competence translates into positive judgmental reactions toward the achievement outcomes of others, that is, entrepreneurs who experienced business failure.

#### **Introduction**

The societal perception and evaluation of entrepreneurial failure is an important aspect of entrepreneurship given the potentially negative impact not only on the entrepreneurs experiencing business failure but also on individuals associated with the failed organization, its stakeholders, and ultimately society as a whole. Entrepreneurial failure can trigger stigmatization, a process that can start even before the actual failure event (Singh et al., 2015). Stigmatization in the context involves individuals assigning blame and discrediting someone's professional identity (Wiesenfeld et al., 2008). It can result in former entrepreneurs facing severe psychological, financial, and social costs stemming from the stigma of entrepreneurial failure (Ucbasaran et al. 2013). More specifically, the private and professional relationships of failed entrepreneurs can suffer and they can face negative discrimination with regard to future employment opportunities (Shepherd, 2003; Singh et al., 2007). Moreover, they may even decide to permanently withdraw from entrepreneurial activity, which is particularly negative given the distribution of learning from business failure (Cope, 2011).

According to attribution theory (Heider, 1958; Weiner, 1985, 2000), all negative affective and behavioral reactions toward the failed entrepreneur (e.g., subsequent discrimination and stigmatization) start with the causal beliefs people infer in response to so-called trigger events (e.g., business failure). *Who was involved? Who is responsible? Will it happen again?* These are the important questions that ultimately inform the judgment of the broader public and potentially trigger negative reactions toward the entrepreneur. Despite the evident importance of this process, it is somewhat surprising that we know so little about how observers arrive at their judgments when tasked with evaluating entrepreneurs following business failure (Shepherd & Patzelt, 2015; Singh et al., 2015). This study seeks to extend this line of research by contributing to answering the fundamental questions relating to (a) how observers arrive at their judgments of a failed entrepreneur when business failure is framed as either internal or external to the entrepreneur, presented as controllable or uncontrollable, and as a nonrecurring or recurring event, and also (b) how observers' judgments vary according to their self-efficacy beliefs.

Using causal attribution theory (Heider, 1958; Weiner, 1985, 2000) and the self-efficacy literature as a theoretical framework, this study theorizes on how the characteristics of the failure event and those who evaluate it (i.e., the observers) influence the judgmental reaction toward failed entrepreneurs (Shepherd & Patzelt, 2015). By analyzing a large sample of 6,152 observations from 769 observers using conjoint analysis, this study primarily makes three contributions to existing streams of research:

First, until recently, scholars have primarily paid attention to the socio-cultural aspects associated with stigma arising from entrepreneurial failure in general (Begley & Tan, 2001) or bankruptcy more specifically (Efrat, 2006). Several studies indicated that the stigma of entrepreneurial failure can vary from one national culture to another (e.g., Begley & Tan, 2001; Cave et al., 2001; Lee et al., 2011) whereas stigmatization may hinder entrepreneurial activity (Vaillant & Lafuente, 2007; Simmons et al., 2014). However, research on the microprocesses determining these societal level relationships remains scarce (Shepherd & Patzelt, 2015; Singh et al., 2015). This study seeks to extend these lines of research by analyzing the underlying mechanisms leading to the negative judgmental reactions that may ultimately affect the degree of stigmatization an individual reflects onto a failed entrepreneur.

Second, self-efficacy, defined in this study as a trait-like belief of individuals in their ability to complete tasks and attain goals in many different situations (Chen et al., 2004; Eden, 1988), has been studied extensively in various research settings such as those of organization,

management, and entrepreneurship (Beck & Schmidt, 2015; Bullough et al., 2014; Chen et al., 1998). While these studies provided important insights into the antecedents and effects of an individual's self-efficacy beliefs in a given situation, less is known about the role of self-efficacy beliefs in interpersonal settings. Thus, building upon self-efficacy literature, this study attempts to explore the role of self-efficacy beliefs in the judgment policy of observers.

Finally, both business failure and any subsequent stigmatization often represent a threat to an entrepreneur's identity, a threat stemming for example from low self-confidence, discredited personal and professional relationships, and discrimination regarding future employment opportunities (Shepherd, 2003; Cope, 2011; Shepherd & Haynie, 2011). There is a rich body of literature on how individuals respond to such threats and manage the impressions of others (Elsbach, 1994; Sutton & Callahan, 1987; Tomlinson & Mryer, 2009). However, research on the effectiveness of such efforts to manage the stigma of business failure remains scarce (Semadeni et al., 2008; Shepherd & Haynie, 2011; Jenkins et al., 2014). This study provides a systematic look at how entrepreneurs can frame business failure to mitigate the negative reactions of the general public. By acknowledging attributions as devices that shape not only the view of the self but also the impressions of others, the findings of this study pave the way for further research exploring stigma management tactics in response to business failure.

The remainder of this paper proceeds as follows. First, the relevant theoretical background is developed by discussing how the different attributional dimensions and the observers' self-efficacy beliefs might influence their judgment of a failed entrepreneur. Next, the methodological procedure involved in testing the hypotheses is presented, and is followed by the presentation of the results. Finally, significant implications for theory and practice are explained based on the presented results and areas of future research which could be beneficial in building on and further enhancing the findings of this study are outlined.

## **Theory & Hypotheses**

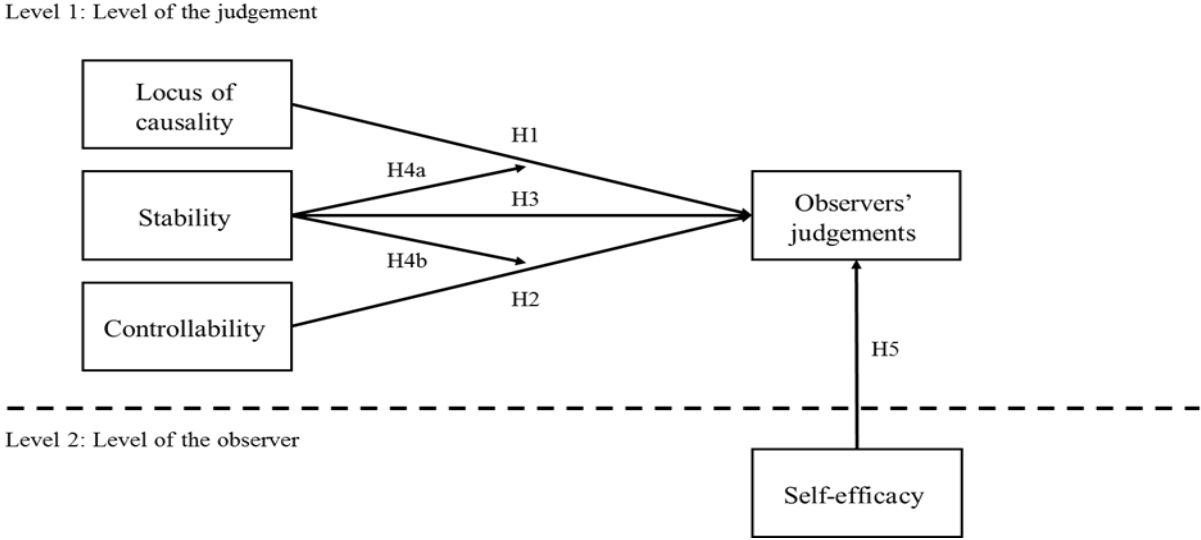
To explore how independent observers arrive at their judgments when tasked with evaluating a failed entrepreneur, this study adopts an attributional perspective (Heider, 1958; Weiner, 1985, 2000). An attributional perspective provides an excellent framework for studying evaluation and judgment situations in achievement settings (e.g., success and failure). Attribution theory research has already enhanced our understanding of how individuals judge others in various actual life settings such as social approval (Juvonen & Murdock, 1993), perceptions of fairness (Farwell & Weiner, 1996), and accountability (Jenkins et al., 2014).



To further specify the empirical focus of this study, it is useful to distinguish between the interpersonal and intrapersonal perspectives inherent within attribution theory (for a review, see Weiner, 2000). Thus, in individual achievement terms, entrepreneurs can be described as actors who attempt to understand their previous entrepreneurial experience by formulating causal explanations, that is, they engage in a form of sensemaking (Weick, 1995) to explain their own behavior, the actions of others, and events in the world (Cardon et al., 2011). In this regard, all causes can be decomposed into three important dimensions which potentially impact entrepreneurs on the cognitive, affective, and behavioral levels (Harvey et al., 2014; Heider, 1958; Weiner, 1985): (a) the locus of causality, that is, the cause is perceived to be internal or external to the actor, (b) the controllability of the cause, that is, is it or is it not under the volitional control of the actor, and (c) the stability of the cause, that is, if the cause is perceived to be transient or enduring over time (Harvey et al., 2014; Weiner, 1985).

However, sensemaking and the evaluation of business failure is not restricted to the entrepreneur (Cardon et al., 2011) but to the same degree concerns their direct and indirect social environment (e.g., team members, potential employees, family, the media, legislators) which in turn represents the interpersonal perspective. In a similar vein as actors, observers engage in sensemaking to arrive at their own individual judgments in the form of the dimensional placement of a cause, that is, whether it is perceived as internal or external to the actor, controllable or uncontrollable and stable or unstable (Hareli & Weiner, 2002). Their final judgment should then determine affective reactions toward the entrepreneur (e.g., anger and sympathy) and a great variety of behavioral responses, including altruistic actions, punishment or discrimination (Weiner et al., 1988).

**Figure 2-1: Conceptual Model**



Drawing on the preceding perspective, this study develops and tests a model of how the characteristics of a specific failure event and those who evaluate it (i.e., the observer) influence the judgment of individuals (fig. 2-1). More specifically, Level 1 of the model investigates how the three attributional dimensions (i.e., locus of causality, controllability, and stability) influence observers' judgments. As the assignment of a cause of business failure depends on the individual characteristics of an observer, the judgment approach of observers can vary. Because previous research suggests that individuals with high self-efficacy beliefs tend to view themselves as capable of meeting task demands or challenges, and tend to take responsibility for their personal circumstances (Whyte et al., 1997; Wood & Bandura, 1989), this study posits that how observers evaluate the achievement outcomes of others, that is, entrepreneurs who experienced business failure, will depend on the observer's level of self-efficacy (Level 2 in fig. 2-1).

#### *Locus of Causality and Negative Judgment*

The locus of causality dimension refers to whether the cause of an outcome is perceived to originate within the person experiencing an event (internal) or outside of him or her (external). Thus, while an internal attribution relates to an entrepreneur's personal involvement in a particular failure event, an external attribution occurs when external circumstances are blamed for business failure (e.g., an economic crisis). Denying personal involvement in failure events is considered a functional response to the social environment and is for example linked to affective reactions such as anger and frustration (Weiner, 1985). Accordingly, self-focused emotions such as guilt and shame typically follow when entrepreneurs attribute business failure to causes internal to themselves.

In evaluating entrepreneurs attributing the failure of their businesses either to external or internal circumstances, observers are likely to base their judgments on the perceived link between the entrepreneur and the business failure event (Kirkwood, 2007; Semadeni et al., 2008). In this regard, individuals might evaluate entrepreneurs who attribute business failure to an internal cause more negatively than they would those who externalize the causes of business failure. Indeed, if entrepreneurs do not maintain a degree of separation between themselves and the business failure event, observers have a clearly defined target to direct the blame at, and the outcome may be a negative judgment (Kirkwood, 2007; Cardon et al., 2011; Ucbasaran et al., 2013). In a similar vein, if an entrepreneur attributes business failure to external forces, the response is likely to be different. Denying personal involvement might deflect from the self of

the entrepreneur and eliminate and discount his or her role in the failure event, therefore potentially producing a more positive reaction.

Moreover, attribution theory predicts certain emotional reactions on the side of the observer in failure settings. When individuals emphasize their role in the actual failure event, they can trigger negative emotional responses, such as anger, irritation, or aversion (Dijker et al., 1996; Weiner, 2000) among observers, which can then translate into a negative judgment of the failed entrepreneur. While internalizing business failure may trigger a negative emotional reaction, the reverse might be true when entrepreneurs ascribe business failure to external forces. Such action can spur positive emotions (e.g., pity, liking, or admiration) on the part of the observers, which may then lead to a more positive evaluation of the failed entrepreneur (Weiner, 2000). Building on the previous arguments, I hypothesize the following:

**Hypothesis 1:** *Entrepreneurs who internalize business failure are evaluated more negatively than entrepreneurs who attribute business failure to external circumstances.*

#### *Controllability and Negative Judgment*

The controllability dimension relates to the extent an individual perceives the cause of an outcome to be of someone's volition (Harvey et al., 2014; Weiner, 1985). Business failure attributable to increased competition for example could be considered as uncontrollable, whereas an entrepreneur's effort and, to a much lesser extent, ability are typically viewed as controllable factors. In a similar vein to personal involvement, accepting responsibility for business failure, may call for critical reflection on the causes, as it may particularly challenge personal assumptions, decision making, and existing behaviors potentially resulting in self-directed emotions such as shame and guilt (Graham et al., 1997; Weiner, 2000). In contrast, when entrepreneurs deny responsibility for business failure, emotions directed toward others, such as anger, are likely to occur.

According to Weiner (1985), causal controllability is of crucial importance for interpersonal judgments because when observers perceive the cause of a negative event as controllable, then that person is typically viewed as responsible for the outcome (Hip-Fabek, 2006). Perceived responsibility might lead to a more negative reaction toward failed entrepreneurs as opposed to entrepreneurs attributing business failure to circumstances beyond their control (Graham et al., 1993, 1997). This prediction is based on evidence from the marketing literature, social-psychological research, and health-related studies linking control with responsibility and subsequent negative reactions such as blame or neglect (e.g., Crandall et al., 2001; Graham et

al., 1993, Weiner et al., 1988). In a cancer-related setting, Ruthig et al. (2012) found for example that the degree of stigmatization increases to the extent to which observers perceive that individuals were able to control or prevent a potentially offending attribute.

While observers might judge those who caused a negative event more punitively when they believe they could have avoided it, there might be a different reaction when constraints force their actions (Hamilton, 1980). Thus, if the cause of a negative event is perceived as uncontrollable, then the observed person will not be held accountable or personally responsible for it (Graham et al., 1993, 1997). The lack of responsibility may elicit sympathy and a more prosocial reaction which could result in a more positive evaluation of the failed entrepreneur (Weiner et al., 1988). Thus, I hypothesize:

**Hypothesis 2:** *Entrepreneurs who present business failure as controllable are evaluated more negatively than entrepreneurs attributing business failure to uncontrollable forces.*

#### *Stability and Negative Judgment*

Another attributional dimension suggested to be of great importance to observers' reactions in interpersonal judgment contexts is causal stability, which refers to the perceived variability or permanence of a cause (Graham et al., 1997; Tomlinson & Mryer, 2009). To illustrate, business failure could be viewed as permanent when it is likely to reoccur in similar circumstances. In contrast, business failure can also be described unlikely to recur. Causal stability is closely related to an entrepreneur's expectations of future success, that is, hope or hopelessness (Weiner, 2000). Entrepreneurs who perceive business failure as a re-occurring phenomenon might suffer a diminished belief in their ability to succeed in the future, which could have serious psychological costs. On the other hand, the reverse might be true if business failure is considered as always being a nonrecurring phenomenon (Abramson et al., 1978; Seligman, 2006).

When observers are asked to judge entrepreneurs positioning business failure as either stable or unstable, the perceived variability or permanence of a cause might have a significant influence on the judgment. Observers may judge entrepreneurs more negatively if they read task failure as indicating that the entrepreneurs will continue to be unsuccessful in the future. The judgment might be more positive if entrepreneurs convincingly claim the business failure was only circumstantial. This argument is consistent with previous theorizing and findings in various research settings such as service recovery (e.g., Folkes, 1984; Hess et al., 2003) or the justice literature (e.g., Carroll, 1978).

Those making decisions on the parole of offenders, for example, rely on evidence including past offenses to assess whether the cause of a crime is of a stable, as in recurring, nature (Carroll, 1978). Carroll found convicts were more likely to be paroled when the cause of their crime was deemed to be unstable, in other words, nonrecurring. Moreover, in an education setting, Reyna and Weiner (2001) found that teachers employ more utilitarian-driven interventions and are less punitive when they ascribe a student's poor academic performance to nonrecurring or unstable causes because they are confident that the undesirable behavior will change, an assumption that makes available the full range of beneficial interventions at the teachers' disposal (Reyna & Weiner, 2001; Tomlinson & Mryer, 2009). Building on the previous arguments, I hypothesize the following:

**Hypothesis 3:** *Entrepreneurs who present business failure as owing to a stable cause are evaluated more negatively than entrepreneurs attributing business failure to unstable factors.*

#### *The Moderating Role of Causal Stability*

Attribution theory has suggested links between the perceived variability or permanence of a cause and the attributional dimensions of the locus of causality and controllability (Hess, 2008; Tsiros et al., 2004). While the stability dimension can moderate the relationship between each of the two attributional dimensions and observers' judgments, the nature of this moderation might be quite similar. As mentioned earlier, perceptions of causal stability shape observers' expectations of a person's future, and these expectations, in turn may moderate or amplify the observer's reaction to business failure (Reyna & Weiner, 2001; Seiders & Berry, 1998; Weiner, 1985).

To illustrate, if an entrepreneur admits personal involvement in a business failure and is perceived likely to fail in similar situations, that entrepreneur might be judged more negatively than if business failure appears to be attributable to an internal yet unstable phenomenon. In a similar vein, if entrepreneurs who admit that business failure was controllable are judged by observers as likely to fail again under similar circumstances, those entrepreneurs might be evaluated more negatively than if business failure is presented as flowing from a controllable but unstable cause. These arguments are consistent with the service recovery literature (e.g., Maxham & Netemeyer, 2002) and also that of social psychology (e.g., Reyna & Weiner, 2001). In cases of product failure, for instance, Folkes (1984) found that fewer apologies and refunds were warranted if subsequent negative disconfirmation was due to a cause that was perceived as stable yet uncontrollable than if the cause was stable but controllable.

The permanence of the cause may lead observers in both cases to believe that the entrepreneur consistently makes the same mistakes without improving, which may ultimately result in a more negative judgment (Maxham & Netemeyer, 2002). Accordingly, observers who view business failure as not being a recurring phenomenon may view the failure event as circumstantial or as an anomaly, leading to a less negative judgment of the entrepreneur. Therefore, building upon the previous arguments, I hypothesize the following:

**Hypothesis 4a:** *Entrepreneurs who internalize business failure are evaluated more negatively than entrepreneurs who externalize business failure, but the effect is reduced for entrepreneurs presenting business failure as flowing from nonrecurring causes than for those who attributing it to recurrent causes.*

**Hypothesis 4b:** *Entrepreneurs who present business failure as having been controllable are evaluated more negatively than entrepreneurs attributing business failure to uncontrollable forces, but the effect is lessened for entrepreneurs presenting business failure as flowing from nonrecurring causes compared to those presenting failure as attributable to recurrent causes.*

#### *Observer's self-efficacy and Negative Judgments*

As mentioned earlier, a profound understanding of observers' judgment approaches demands equal consideration of both the characteristics of the failure and of the observers evaluating failed entrepreneurs. Empirical research on self-efficacy has found it to have a significant impact on individuals' performance across a great variety of tasks as well as on their motivation (i.e., effort), attitudes, and emotional reactions (e.g., Bandura, 2012; Gist, 1987; Thoms et al., 1996). As this body of literature suggests that individuals with a high level of self-efficacy tend to view themselves as capable of meeting task demands or challenges, and of taking responsibility for their personal circumstances in a variety of situations (Whyte et al., 1997; Wood & Bandura, 1989), such observers might judge the achievement outcomes of entrepreneurs who experienced business failure differently than observers with low levels of self-efficacy.

There is a vast body of evidence that people differ in the extent to which they believe that their actions and decisions may directly affect their current circumstances and personal conditions (Gist & Mitchell, 1992). Previous research reports, for instance, that individuals with a high level of self-efficacy have a positive attitude toward failure in general. They tend to perceive failure as a challenge to be mastered rather than as a potential threat to be avoided (Wood & Bandura, 1989). Such people have also been characterized as boosting their efforts if they

anticipate failure, and as recovering their confidence after failures or setbacks more easily than people with low levels of self-efficacy (Bandura & Cervone, 1983, 1986). Whyte et al. (1997), for instance, report that individuals with high levels of self-efficacy are more persistent and will invest more resources into, and take greater risks to rescue, failing projects. Moreover, self-efficacy beliefs are considered one of the important entrepreneurial competences, and to represent a key antecedent of new venture intentions (Boyd & Vozikis, 1994; Bullough et al., 2014; Zhao et al., 2005). As a result of this positive attitude toward entrepreneurial behavior and failure in general, strong self-efficacy beliefs may represent strong determinants and predictors of positive judgmental reactions toward entrepreneurs who experienced business failure.

While observers with high levels of self-efficacy may exhibit a positive attitude toward entrepreneurs who experienced business failure, individuals with low levels of self-efficacy might behave in the opposite manner. These individuals have been characterized as being more likely to distrust their capabilities, adapt to present conditions, allow events to happen, and prefer to react to changes (Wood & Bandura, 1986). Self-efficacy theory suggests that individuals with low levels of self-efficacy believe that they can exert only a limited influence on their present conditions. Consequently, those people are likely to withdraw from situations when they anticipate failure because they distrust their competence, and are easily discouraged by failure (Bandura & Cervone, 1983, 1987; Whyte et al., 1997). In sum, individuals with weak self-efficacy may less readily accept the failure of others, which leads to the following hypothesis:

**Hypothesis 5:** *Entrepreneurs are evaluated less negatively over their business failure by observers with a high level of self-efficacy than by those with low levels of self-efficacy.*

## **Data & Method**

### *Analytical Procedure*

To explore how the perceived cause of business failure affects observers' judgments of failed entrepreneurs, this study relies upon conjoint analysis because the technique has been used in multiple judgment and decision-making studies not only in the field of entrepreneurship (e.g., Shepherd et al., 2013; Behrens & Patzelt, 2015) but in a variety of disciplines (e.g., Carroll & Green, 1995; Poortinga et al., 2003). More specifically, the choice of method was driven by the primary consideration that judgmental reactions to business failure are a complex phenomenon that ultimately involves opinion-shapers (e.g., the media) as well as various socio-psychological

processes on the side of the observers (e.g., cognitive biases) (Wiesenfeld et al., 2008). In this regard, a metric conjoint approach allows for the reduction of complexity and to control for potentially confounding variables, such as specific characteristics of the failed entrepreneur (e.g., track record and personality) or possible social interactions between the entrepreneur and observer.

In a conjoint experiment, respondents typically make assessments of specific profiles that are combinations of theoretically derived attributes (Priem & Harrison, 1994). These attributes are in turn represented by a limited number of levels. In this study, I relied on two attribute levels, representing the research variables from which I finally elicited the observers' judgment approach (Shepherd et al., 2013). This procedure later allowed us to calculate the weight of each attribute in making a judgment, in other words, the importance observers placed on specific attributes when judging failed entrepreneurs (Shepherd & Patzelt, 2015).

To determine which attribute level is used for a particular profile and the adequate number of profiles to test the hypotheses, I employed, an experimental design, that is, an orthogonally fractional factorial design (e.g., Behrens & Patzelt, 2015; Patzelt & Shepherd, 2008). As the judgment task in metric conjoint analysis is generally fully replicated to test for respondent reliability, this experimental design allowed us to reduce the number of original attribute combinations to ensure this time consuming task remained manageable. Participants in a conjoint experiment make a series of judgments to generate nested data in the form of a set of judgments (level 1) nested within each observer (level 2). To account for this data structure I used random coefficient modeling, also referred to as hierarchical linear modeling (HLM).

The specific orthogonal fractional factorial design used in this study asked participants to judge eight original profiles that were fully replicated. Additionally, I included a practice profile that served to familiarize participants with the conjoint task but that was not considered for further analysis. The result was a total of 17 profiles for each respondent to evaluate. I randomly assigned both the order of the profiles and the order of the attributes in two ways each. Moreover, I manipulated the judgment situation in terms of type of business failure resulting in eight versions of the experiment (detailed below), while participants were randomly assigned to one of the eight versions. To test for possible order effects, I included each of the eight versions as level 2 variables in HLM. The results indicated no significant order effects ( $p > 0.1$ ).

As detailed below, participants were first provided with a description of the judgment situation to provide a common understanding. Afterwards, they judged a series of hypothetical profiles describing specific business failure settings as communicated by the failed entrepreneur, and



they assessed the likelihood that they would accept the statement of the entrepreneur on the subject of business failure. Finally, in a pre- and post-experiment questionnaire, I collected demographic details of the participants.

### *Sample*

My sampling was conducted with particular regard to socio-cultural aspects. For example, I decided on Germany as a research context because fear of failure is an important characteristic of German culture (GEM, 2013). To obtain a fairly balanced sample in terms of age, gender and local distribution, I relied on an internet panel provider to facilitate access to an online survey for the participants. Panel data is particularly appropriate for this study because attribution theory best explains observers' judgments when those observers are in a neutral emotional and motivational state (Hirschberger, 2006). Accordingly, respondents are more likely to make judgments on the basis of the objective evidence with the minimal involvement of other factors that could bias the process.

In line with previous conjoint studies (e.g., Patzelt & Shepherd, 2008, Shepherd et al., 2013), I dropped non-reliable responses from this study and included only respondents with a test–retest reliability (detailed below) greater than 0.3, resulting in a final sample of 769 usable conjoint experiments for further analysis. Referring to the German Federal Statistical Office database (Destatis) revealed that the respondents in the final sample were reasonably representative of the German population in terms of age, gender, and place of residence within Germany (Destatis, 2015). The participants' average age was 47.7 years (standard deviation = 11.71), and 48.5 % of the sample were men. Furthermore, 53.8 % were employed, 14.7 % had retired, 10.9 % were self-employed, 6.8 % were homemakers, 5.5 % were employed in the public sector; 4.4 % were students, and 3.9 % were unemployed. In terms of education, 62.8 % had completed an apprenticeship or held a comparable degree, 33.6 % were college graduates at least, and 3.6 % were early school leavers.

### *Survey Instrument and Variables*

Participants were first provided with a description of the judgment situation to provide a common understanding and to familiarize them with the subsequent judgment task. Thus, before they began to evaluate the profiles, I asked them to carefully read a short description of a hypothetical business failure scenario that I had scripted in terms of type of business failure. To control for specific characteristics of the failed entrepreneur, I informed the participants that in both scenarios the entrepreneur had substantial experience and expertise within the business

in question. To ensure that participants made objective judgments, I further instructed the participants that they were not acquainted with the failed entrepreneur in any personal or professional capacity. Moreover, I asked the participants to assume that the founder was the CEO of the firm and therefore fully in charge of the operations. Finally, I instructed the participants to carefully read each of the profiles, and judge the failed entrepreneur based on the particular business failure setting (i.e., the variation in terms of locus of causality, controllability, stability, and reference to others) independent of the previous and subsequent profiles.

*Dependent Variable.* The dependent variable of this study is the observer's judgment of the failed entrepreneur in a specific business failure setting. Consistent with other studies concerned with judgments (e.g., Sadler et al., 2005), I asked participants to assess the degree to which they accepted the statement of a failed entrepreneur using a 7-point Likert-type scale anchored with *not at all* (1) and *very much* (7).

*Variables at Level 1 (judgment profiles).* The profiles in the conjoint experiment consist of four attributes, the three attributional dimensions (i.e., locus of causality, controllability, and stability) suggested by Weiner (1985) that represent the independent variables as well as a performance reference to other firms in the industry (Wiesenfeld et al., 2008) included as a control. Consistent with attribution theory and previous studies using a metric conjoint approach, I describe each attribute on two levels. The locus dimension was described on the two levels *internal*, that is, whether business failure is attributed to reasons internal to the individual experiencing the event ("*It was because of me*") and *external*, that is, business failure is attributed to reasons external to the entrepreneur ("*It was related to external circumstances*"). Controllability relates to the extent to which an observer perceives the cause of an outcome to be under someone's control (Weiner 1985) and consists of the following two levels: *controllable* ("*I could have avoided it*") and *uncontrollable* ("*I could not have avoided it*"). The stability dimension refers to the perceived variability or permanence of a causal factor and was described by the following two levels: *stable* ("*it could happen again*") and *unstable* ("*It was a one-time thing*").

Finally, business failure occurring in isolation or within healthy industries are unexpected outcomes and may provide a strong signal of leaders being ineffective and ultimately result in a negative judgment of the failed entrepreneurs (Wiesenfeld et al., 2008). To control for this performance discrepancy, I included a performance reference determined on the following two levels: *global* ("*others have failed as well*") and *specific* ("*I'm the only one*").

*Variables at Level 2 (the observer level).* As mentioned previously, the level 2 variables were collected in a post-experiment questionnaire. To operationalize observers' self-efficacy beliefs, I used the German Version of the established General Self-Efficacy scale (Schwarzer et al., 1997) that has already been used in numerous studies (e.g., Luszczynska et al., 2005; Schwarzer & Hallum, 2008). The Cronbach's alpha was 0.945 suggesting high internal consistency. In addition, I also examined the validity of this scale by estimating a confirmatory factor analysis (CFA). As suggested in the CFA literature, multiple indices were used to assess overall fit (Beauducel & Wittmann, 2005). I included the non-normed fit index (NNFI), the comparative fit index (CFI), and the standardized root mean residual (SRMR) as each form provides information about different specific aspects. Given established standards (Hu & Bentler, 1999), the fit was quite satisfactory (NNFI= 0.927, CFI = 0.943, SRMR = 0.037) indicating reliability and validity.

Because people who are self-employed, of a different gender, older, or educated to a higher level than the subjects might judge business failure differently, I controlled for employment status, gender, age, and education (Shepherd & Patzelt, 2015; Wiesenfeld et al., 2008). To control for respondents' employment status, I included seven dummy variables (self-employed, employed, student, employed in the public sector, unemployed, retired, homemaker) coded for example 1 for self-employment and 0 otherwise. Gender was a dichotomous variable coded 1 for male and 0 for female, and age was calculated from current date minus birth date. Education was coded as a categorical variable with five levels ranging from early school leavers to college graduates. Moreover, I controlled for net household income of the respondents, which was measured as a categorical variable ranging from below 1,000 EUR in net monthly household income to over 5,000 EUR.

Because observers' attitudes toward entrepreneurial failure might differ not only internationally but also within a country (Cardon et al., 2011), I included dummy variables for all 16 German federal states to control for these effects. Additionally, because respondents who know ex-entrepreneurs who have experienced business failure in their personal or professional environments may judge failed entrepreneurs differently, I controlled for this familiarity with a dummy variable coded 1 if an individual had a personal or a professional relationship with a failed entrepreneur and 0 otherwise. To control for the type of business failure (Shepherd & Patzelt, 2015; Ucbasaran et al., 2013), I assigned respondents randomly to either a scenario where the founder had to declare bankruptcy or a second one where the entrepreneur ceased doing business and exited the market. Finally, individuals who are more satisfied with their life

might evaluate entrepreneurs differently, therefore I controlled for satisfaction with life using the German Version of the Satisfaction with Life Scale (SWLS) developed by Diener et al. (1985). The Cronbach's alpha for this scale was 0.913. As before, I conducted a CFA, and it returned satisfactory results (NNFI= 0.985, CFI = 0.993, SRMR = 0.016) indicating reliability and validity (Hu & Bentler, 1999).

### **Analysis and Results**

The conjoint experiment generated 6,152 judgments nested within 769 observers. As mentioned before, in line with previous conjoint studies I dropped all unreliable responses, and accordingly the final sample had a mean test–retest correlation of 0.64. Table 2-1 summarizes the descriptive statistics for the Level 2 variables included in the analysis. I have checked all variance inflation factors (VIFs) in order to capture any possible multicollinearity problems associated with high correlation. All VIFs were well below the generally accepted limit of 10.0 (Kutner et al., 2004) suggesting multicollinearity is not an issue in this sample. Given the orthogonal design, there is zero correlation between the Level 1 attributes, which is consistent with attribution theory as the three attributional dimensions are viewed as independent (Tomlinson & Mryer, 2009; Weiner, 1985).

**Table 2-1:** Descriptive Statistics and Correlation Coefficients for Level 2 Variables

<b>Variable</b>	<b>Mean</b>	<b>SD</b>	<b>Min</b>	<b>Max</b>	<b>1.</b>	<b>2.</b>	<b>3.</b>	<b>4.</b>	<b>5.</b>	<b>6.</b>	<b>7.</b>	<b>8.</b>	<b>9.</b>
1. Age	47.71	11.71	18.00	69.00	1.000								
2. Education	2.45	1.68	0.00	5.00	-0.012	1.000							
3. Gender (1=male)	0.49	0.50	0.00	1.00	0.154**	0.094*	1.000						
4. Personal income	2,347.20	1,562.77	500.00	5,500.00	0.011	0.218**	0.123**	1.000					
5. Failure experience (1=Failure experience)	0.47	0.50	0.00	1.00	0.102**	0.041**	0.085**	0.067**	1.000				
6. Type of business failure (1=bankruptcy)	0.52	0.50	0.00	1.00	0.011	0.049**	0.008	0.051**	0.017	1.000			
7. Self-employment (1=self-employed)	0.11	0.31	0.00	1.00	0.087**	0.157**	0.169**	0.022	0.150**	-0.005	1.000		
8. Satisfaction with life	4.44	1.23	1.00	7.00	0.021	0.109**	-0.006	0.277**	0.017	0.028*	0.041**	1.000	
9. General self-efficacy	4.89	0.90	1.00	7.00	0.115**	0.142**	0.071**	0.232**	0.106**	-0.003	0.137**	0.505**	1.000

Notes: \*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$

To decompose the judgment policy of the sample as a whole into the weights placed on the entrepreneur in a particular business failure setting, I ran a Level 1 model (Shepherd & Patzelt, 2015). As illustrated in Table 2-2, I found a positive coefficient for locus of causality (0.113;  $p < 0.05$ ) which suggests that observers judge failed entrepreneurs more positively when they perceive the entrepreneur was not personally involved in the actual failure event, thus providing support for Hypothesis 1. Interestingly, I cannot confirm Hypothesis 2 as I found a positive coefficient for the controllability dimension (0.401;  $p < 0.001$ ) indicating that observers evaluate entrepreneurs more negatively when they perceive that business failure was not under an entrepreneur's volition. For the permanence or variability of a cause, the results suggest that observers judge failed entrepreneurs more negatively when they perceive the business failure event as a rather stable event (0.190;  $p < 0.001$ ) thus providing support for Hypothesis 3.

**Table 2-2:** HLM results of observers' judgments of failed entrepreneurs (level 1)

<i>Variable</i>	<i>Coefficient (SE)</i>
Intercept	3.247*** (0.052)
Locus of causality (0=internal; 1=external)	0.113** (0.040)
Stability (0=recurrent; 1=nonrecurrent)	0.190*** (0.046)
Controllability (0=uncontrollable; 1=controllable)	0.401*** (0.048)
Performance reference to others (0=global; 1=specific)	-0.147*** (0.031)
Locus of causality x Stability	-0.166*** (0.038)
Controllability x Stability	0.157*** (0.046)

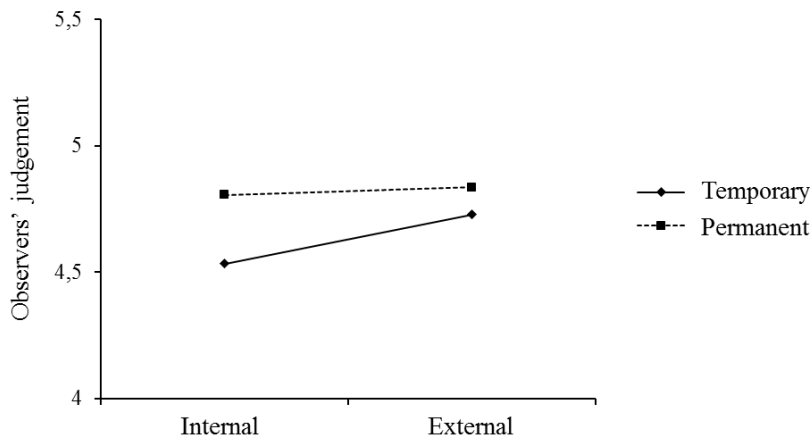
*Notes:* \*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$ ;  $n = 6152$  judgments nested within 769 observers.

A negative coefficient indicates a more negative judgment and a positive coefficient indicates a more positive judgment

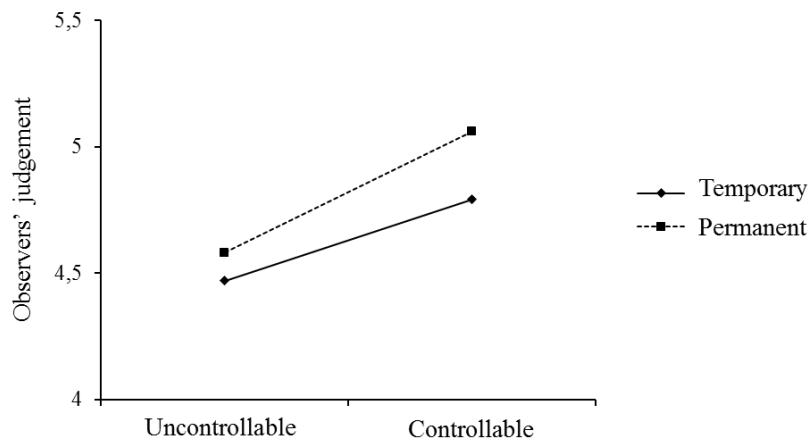
Finally, I found a significant coefficient for the interaction of locus of causality and stability (-0.166;  $p < 0.01$ ) and a significant coefficient for the relationship between controllability and stability (0.157;  $p < 0.05$ ) suggesting that causal stability does soften and amplify the relationship between both attributional dimensions and observers' judgments (fig. 2-2). However, contrary to that hypothesized, entrepreneurs who present business failure as uncontrollable are evaluated more negatively than entrepreneurs attributing business failure to controllable forces. Therefore, I can support Hypothesis 4a but have to reject Hypothesis 4b.

**Figure 2-2:** Moderating Relationships of Causal Stability between Research Variables

(a) Locus of causality



(b) Controllability



The next step in the analysis was to test whether the self-efficacy characteristics of the observers explain any variance in their judgment policy (tab. 2-3). Model 1 represents the base model with only the control variables present. Next, I ran a full model, which repeated the analysis with the addition of general self-efficacy. In the interests of parsimony, I only report the results for the overall intercept, locus of causality, controllability, and stability. The overall intercept indicates the effect of the Level 2 variables on observers' judgments, controlling for the Level 1 attributes – locus of causality, controllability, stability, the performance reference, and both interaction effects. The findings suggest that over and above the attributes of the failure event, individuals with greater self-efficacy are more positive in their (baseline) evaluations (0.134;  $p < 0.05$ ) than observers with a low level of self-efficacy. The finding offers support for Hypothesis 5.

**Table 2-3:** HLM results of observers' characteristics on judgments of failed entrepreneurs (Level 2)

<i>Variables</i>	<i>Overall Intercept</i>		<i>Locus of Causality</i>		<i>Controllability</i>		<i>Stability</i>	
	<i>Model 1: Base coefficient (SE)</i>	<i>Model 2: Full coefficient (SE)</i>	<i>Model 1: Base coefficient (SE)</i>	<i>Model 2: Full coefficient (SE)</i>	<i>Model 1: Base coefficient (SE)</i>	<i>Model 2: Full coefficient (SE)</i>	<i>Model 1: Base coefficient (SE)</i>	<i>Model 2: Full coefficient (SE)</i>
Intercept	4.134*** (0.413)	3.792*** (0.448)	0.099 (0.442)	0.534 (0.478)	-0.157 (0.442)	0.076 (0.478)	-0.021 (0.541)	0.020 (0.586)
Age	0.001 (0.006)	-0.001 (0.005)	-0.012* (0.006)	-0.010† (0.006)	0.001 (0.006)	0.002 (0.006)	-0.003 (0.007)	-0.003 (0.007)
Education	0.023 (0.032)	0.021 (0.032)	-0.008 (0.034)	-0.005 (0.034)	-0.038 (0.034)	-0.036 (0.034)	-0.023 (0.041)	-0.023 (0.041)
Gender (1=male)	0.028 (0.109)	0.019 (0.109)	-0.081 (0.117)	-0.069 (0.117)	-0.046 (0.117)	-0.040 (0.117)	-0.033 (0.143)	-0.032 (0.143)
Income	-0.001 (0.001)	-0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	0.001 (0.001)	0.001 (0.001)
State (16 cat.)	p < 0.05	p < 0.05	p < 0.05	p < 0.05	p < 0.05	p < 0.05	P > 0.10	p > 0.10
Failure experience (1=Failure experience)	0.026 (0.104)	0.016 (0.104)	0.017 (0.111)	0.029 (0.111)	-0.080 (0.111)	-0.073 (0.111)	-0.034 (0.136)	-0.033 (0.136)
Type of business failure (1=bankruptcy)	-0.064 (0.102)	-0.058 (0.102)	0.048 (0.109)	0.041 (0.109)	-0.109 (0.109)	-0.112 (0.110)	0.093 (0.134)	0.093 (0.134)
Self-employment (1=self-employed)	-0.491 (0.312)	-0.528 (0.312)	0.440 (0.333)	0.486 (0.333)	0.032 (0.333)	0.057 (0.334)	0.586 (0.408)	0.591 (0.409)
Employment status (6 cat.)	p < 0.05	p < 0.05	p > 0.10	p > 0.10	p > 0.10	p > 0.10	p < 0.05	p < 0.05
Satisfaction with life	-0.017 (0.044)	-0.063 (0.050)	0.035 (0.047)	0.093† (0.053)	-0.008 (0.047)	0.023 (0.053)	0.016 (0.058)	0.021 (0.065)
General self-efficacy		0.134* (0.448)		-0.170* (0.072)		-0.092 (0.072)		-0.016 (0.089)

Notes: † p < 0.10; \* p < 0.05; \*\* p < 0.01; \*\*\* p < 0.001; n = 6152 judgments nested within 769 observers.

A negative coefficient indicates a more negative judgment and a positive coefficient indicates a more positive judgment.



## **Discussion**

The purpose of this study was to investigate the societal perception and evaluation of failed entrepreneurs based on the characteristics of both the failure event and the observer. Building upon an attributional perspective and self-efficacy literature, this study makes a primary contribution in exploring the judgment approach of individuals in response to business failure and how entrepreneurs can respond in order to manage the societal perception and ultimately minimize potential social costs stemming from subsequent stigmatization and discrimination (Shepherd & Patzelt, 2014; Singh et al., 2015). Thus, this study contributes to previous research investigating the stigmatization of elites in general (Wiesenfeld et al., 2008) and entrepreneurs in particular (Singh et al., 2007, 2015) by providing some new insights into the mechanisms underlying the relationship between the way business failure is attributed and the subsequent judgmental reactions of observers.

While there is a vast body of literature on social accounts and the ways in which individuals attempt to shape the perceptions of others following a negative event (e.g., Semadeni et al., 2008; Sutton & Callahan, 1987), evidence on the effectiveness of these impression and stigma management tactics in response to entrepreneurial failure is scarce. By relying on self-presentation as a function of attributions, the current research seeks to extend the knowledge on the effectiveness of these tactics (Shepherd & Haynie, 2011). The analysis revealed that observers judge failed entrepreneurs more negatively when they perceive them to be either personally involved in the actual failure event, not in control, or when business failure is likely to reoccur in the future, potentially leading to increased social costs. In contrast, either external, controllable, or unstable attributions may spur positive affect toward the failed entrepreneur pointing to a reduction in social costs. Finally, causal stability apparently moderates the relative strength of these effects.

Contrary to the expected result, entrepreneurs who present business failure as uncontrollable are evaluated more negatively than entrepreneurs attributing business failure to controllable forces. These results are particularly interesting as they contribute to mounting evidence questioning the unconditional application of classic attribution theory within the specific context of entrepreneurial failure (Mantere et al., 2013; Shepherd & Hanie, 2011). Thus, contrary to what attribution theory would predict, the results revealed that entrepreneurs adopting a negative view on the self by admitting control over the failure event, can ensure a more positive judgmental reaction than if they were to deny responsibility. A reasonable explanation could be that admitting responsibility may

support observers' pre-existing assumptions of a link between an entrepreneur's actions and performance outcomes (Sutton & Callahan, 1987). Consequently, admitting responsibility may elicit sympathy from the observers and confer credibility on the entrepreneur, which may then translate into a more positive evaluation of the failed entrepreneur (Schlenker, 1980).

Moreover, the results call for a critical reflection of the locus of causality dimension as the management of societal pressures may further affect not only their individual recovery processes (Cope, 2011; Shepherd, 2003), and wellbeing but also their motivation to re-enter entrepreneurship (Jenkins et al, 2014; Simmons et al., 2014). While denying personal involvement in the failure event favors the self (Heider, 1958; Mantere et al., 2013) and might consequently mitigate the negative judgment of observers; according to my analysis, it may at the same time inhibit learning from failure (Shepherd, 2003) indicating a potential trade-off that entrepreneurs must ultimately address in response to their failure experience. Admitting personal involvement can, at least in the short-term, increase the emotional and psychological burden due to stigmatization, but at the same time, it enables entrepreneurs to extract valuable learning (Shepherd, 2003; Byrne & Shepherd, 2015). Denying involvement, in contrast, may reduce societal pressure but ultimately at the expense of learning from failure.

The current study has implications for research on self-efficacy beliefs. Thus, according to my analysis, observers with a high level of self-efficacy evaluate failed entrepreneurs more positively than observers with a low level of self-efficacy do. Apparently, individuals who believe strongly in their personal competence show a positive attitude toward the achievement outcomes of others which then translates into a positive judgmental reaction. While much of the previous research on self-efficacy covers intrapersonal aspects such as motivation, attitudes, and emotional reactions (Bandura, 2012; Gist, 1987; Thoms et al., 1996), less is known about the importance of self-efficacy beliefs in interpersonal contexts. I believe this extension might have valuable implications for a wide variety of phenomena such as leadership (Gong et al., 2009) and also in-group and team dynamics (Hirst et al., 2015) which future research can address.

Finally, existing research highlights the importance of institutional and cultural factors as potential moderators explaining varying public attitudes toward business failure and the degree of stigmatization inherent across and even within certain countries (Cardon et al., 2011; Efrat, 2006; Lee et al., 2011; Simmons et al., 2014). Building upon this evidence, the analysis contributes to recent research formally examining the role individual characteristics of observers play in their

judgment approach, and thus directs attention to the underlying mechanisms of these effects (Shepherd & Patzelt, 2015; Singh et al., 2015). While self-efficacy belief apparently plays an important role in influencing observers' judgment, more research is needed to better understand the role of observers' characteristics when faced with the task of evaluating the achievement outcomes of others, that is, entrepreneurs who experienced business failure.

### **Limitations and Avenues for Future Research**

From a societal perspective, making sense of business failure and the subsequent stigmatization process involves many different actors (Wiesenfeld et al., 2008; Singh et al., 2015), perhaps most notably the media. In the conjoint experiment, I was able to specifically decompose observers' judgment of entrepreneurial failure, so mitigating the influence of the so-called social arbiters and other potentially confounding variables (e.g., entrepreneurs' personalities or track record). Nonetheless, it would be beneficial for future research to investigate the impact of these potentially influential factors in the judgment approach of individuals evaluating failed entrepreneurs. In this regard, I expect, for example, that media accounts might moderate the relationship between the cause of business failure and the evaluation as well as judgment of the general public therefore potentially increasing or decreasing the societal pressures imposed on failed entrepreneurs.

Moreover, as mentioned earlier, there is evidence that the degree of stigmatization varies culturally and across certain social groups (e.g., venture capitalists) (Cardon et al., 2011; Cope et al., 2004; Shepherd & Patzelt, 2015). Future research could explore observers' judgment approaches from countries other than Germany and across certain social groups. Shepherd and Haynie (2011) highlight the importance of the context wherein failure is communicated as attributions, and also how impression management tactics differ depending for example on the audience. In the current research setting, the observers did not have any personal or professional relationship with the failed entrepreneur. Therefore, it would be beneficial for future research to study the judgment policy in other social settings (e.g., family and friends, or an organizational setting) as it may reveal valuable implications for the nature and effectiveness of entrepreneurs' sensemaking processes and impression management tactics.

Finally, given the results of this study, additional research is warranted to better understand the observers' reactions toward failed entrepreneurs. The study has focused on the judgments of observers after business failure; an approach that ignored their subsequent affective, cognitive, and

behavioral reactions that could follow in response to those judgments. Studying these outcomes would be interesting as they might have considerable implications, for example, for observers' attitudes toward entrepreneurship in general and/or risk and failure more specifically.

### **Conclusion**

Overall, this study explored how observers arrive at their judgments when asked to evaluate failed entrepreneurs. The results presented may further enhance our understanding of the stigmatization process in response to business failure because such judgments can ultimately determine observers' subsequent affective, cognitive, and behavioral reactions to failed entrepreneurs. More specifically, this study revealed how entrepreneurs can react and frame their individual failure event based on the attributions they make to mitigate the social pressures and costs associated with the failure of their past business.

## ***References Chapter 2***

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### ***3 The intermediate effects of business failure (Study II): Constructing Public Narratives of Entrepreneurial Failure***

#### **Abstract**

We build on the narrative theory of failure and storytelling to investigate how entrepreneurs construct the presentation of business failure for the public. We therefore move the narrative research on entrepreneurial failure from a position of retrospective sensemaking to the use of public narratives for post-failure self-presentation and impression making. We apply latent semantic analysis to explore the content of 118 public closure statements posted on the internet pages of discontinued technology-based businesses. We identify five distinct public narratives of entrepreneurial failure based on (1) different levels of emotion and problem-focused content, (2) focus on individual versus collective responsibility, (3) varying temporal orientations, and (4) attributions of the causes for failure to internal and external factors. Our results extend existing theorizations of the Catharsis and Hubris narratives of entrepreneurial failure, and develop an understanding of how public narratives offer a means of impression management after an entrepreneurial failure.

#### **Introduction**

It is not uncommon for entrepreneurs to be forced to liquidate the businesses they started and managed from the very beginning, nonetheless making such a decision can be traumatic and a stigmatizing failure experience for the entrepreneur concerned (Cope, 2011; Shepherd, 2003). Recent research has applied narrative analysis to develop an understanding of how entrepreneurs make retrospective sense of, cope with, and learn from venture failure (Byrne & Shepherd, 2015; Cardon et al., 2011; Mantere et al., 2013; Singh et al., 2015). The present study adds to this literature by shifting the focus from retrospective sensemaking to the use of public entrepreneurial narratives as a means of post-failure self-presentation and impression making (Lounsbury & Glynn, 2001; Shepherd & Haynie, 2011). In Goffman's (1959) terms, we extend the analysis of entrepreneurial failure narratives from back-stage narratives acquired in confidential research settings to front-stage ones constructed for the public.

We analyze the semantic structure of 118 public shutdown notices posted on the websites of discontinued technology businesses using the quantitative text-mining technique, latent semantic analysis (Landauer et al., 1998). This procedure identifies five latent narratives that exhibit

different levels of emotional and problem-focused content (Byrne & Shepherd, 2015); a varying focus on the individual (entrepreneur) versus the collective (team/company); and diverse temporal orientations (past, present, and future). Furthermore, we examine how the latent narratives are associated with narrative attributions of failure owing to mistakes made by the entrepreneur/team (internal attributions) and misfortunes beyond their control (external attributions) (Cardon et al., 2011; Mantere et al., 2013).

Examining the narratives in the manner detailed above constitutes an extension of the narrative literature on entrepreneurial failure (Byrne & Shepherd, 2015; Mantere et al., 2013) in showing what kind of post-failure narratives entrepreneurs construct for the public and how those narratives are articulated. In particular, our results extend existing theorizations of Catharsis and Hubris narratives in the context of business failure (Hayward et al., 2006; Mantere et al., 2013) by showing the many forms they take when entrepreneurs communicate a failure to a broad public audience. Furthermore, our results contribute to the management literature on entrepreneurial storytelling (Garud et al., 2014; Lounsbury & Glynn, 2001) by explaining how written public narratives effectively employ attributions of stories that provide strategic means for crafting distinct-yet-legitimate narrative impressions of past, present and future behavior. Finally, we believe that developing our understanding of public failure impressions adds to the knowledge of how entrepreneurs manage the social stigma of failure (Shepherd & Haynie, 2011; Shepherd & Patzelt, 2015; Singh et al., 2015).

## **Theoretical Background**

### *Narratives of Entrepreneurial Failure*

Narratives are themed accounts characterized by a sequential order of interrelated actions or events that aim to convey meaning from the author/narrator to the reader/listener (Balogun et al., 2014; Czarniawska, 1998; Fraher & Gabriel, 2014; Vaara, 2002). Mantere et al. (2013, p. 459) define narratives in the context of entrepreneurial failure as ‘culturally available means to make sense of and deal with failure.’ Prior narrative research on entrepreneurial failure has focused on retrospective sensemaking of failure events by analyzing narrative accounts derived from entrepreneurs, stakeholders, and the media (Byrne & Shepherd, 2015; Cardon et al., 2011; Mantere et al., 2013; Singh et al., 2015). These studies made emotional and cognitive elements in the sensemaking process a prominent focus.

Although positive emotions such as relief can emerge out of business failure (Shepherd, 2003), prior research mostly addresses the need to cope with grief and associated negative emotions, such as regret, shame, anger and guilt (Jenkins et al., 2014; Ucbasaran et al., 2013). Shepherd (2003) proposed that a combination of experiencing the negative feelings attached to the loss (loss orientation) and a mix of an avoidance tendency and proactively turning towards secondary sources of stress (restoration orientation) could facilitate recovery, as could more effective sensemaking and learning from failure (see also Cope, 2011). At the cognitive level, a failure casts doubt on the validity of beliefs that in many cases are central to entrepreneurs' self-concept, such as the personal competence to run a business or confidence in their decision-making (Shepherd, 2003; Shepherd & Cardon, 2009). Restoring these beliefs is an important aspect of the recovery process because they can affect, for example, the failed entrepreneur's motivation to start another business (Hayward et al., 2006; Ucbasaran et al., 2009).

Building on stress theory (Folkman, 1984), Byrne and Shepherd (2015) identified emotion-focused and problem-focused coping strategies to deal with the consequences of failure. While problem-focused coping directs thoughts and actions towards the roots of the problem causing distress, emotion-focused coping pertains to processing the emotions that accompany a stressful experience (Carver et al., 1989; Lazarus & Folkman, 1984). All the narratives cited in Byrne and Shepherd's (2015) study displayed signs of problem-focused coping, whereas only some of those narratives offered evidence of emotion-focused coping. Moreover, the authors found that those entrepreneurs who applied both coping strategies were able to make sense of their failure experiences more effectively. The authors attributed this finding to the greater degree of cognitive analysis and reflexivity facilitated by focusing on the failure event and its associated emotions.

A necessary outcome of making sense of past events is determining the cause of those events. Cardon et al. (2011) and Mantere et al. (2013) examined the attributions of causes given for failure, distinguishing between internal causes (an entrepreneur's/or a team's mistakes) and external causes (uncontrollable events). Attributions serve many functions, including protecting the individual's emotional well-being, maintaining positive self-esteem, and gaining public approval by presenting a positive self-image (Rogoff et al., 2004). Following the self-serving tendency assumption in attribution theory (Heider, 1958; Rogoff et al., 2004; Weiner, 1986), failed entrepreneurs could be expected to protect their self-esteem by denying responsibility for the failure. However, research on entrepreneurial failure questions this assumption (Mantere et al., 2013; Shepherd & Haynie,

2011). In particular, Mantere et al. (2013) found entrepreneurs to be surprisingly willing to attribute failure to their own actions or the collective actions of the entrepreneurial team, explaining these actions as belonging to their old self (the new self having learnt from the mistakes) or the behavior having been driven by the social context at the time. Managers below the founder level in the same firms were more likely to protect their self-esteem by blaming other actors or external uncontrollable events.

In the next section, we move the focus of the analysis of entrepreneurial failure from sensemaking to impression management (Lounsbury & Glynn, 2001; Shepherd & Haynie, 2011) by examining how entrepreneurs construct public narratives of failure.

### *Narrativizing Entrepreneurial Failure in Public*

Impression management is about the means available to influence social perceptions of the self (Goffman, 1959; Lounsbury & Glynn, 2001). Sensemaking informs impression management by providing an understanding of the past behavior and events leading to the situation that demands social perceptions are managed (Brown & Jones, 2000). Impression management has at least two functions in the case of an entrepreneurial failure. The first function is constructing the failure in a way that leaves the stakeholders with a positive impression of the entrepreneur, which contributes to the personal emotional recovery process and alleviates the potential stigma associated with failure (Shepherd & Haynie, 2011; Singh et al., 2015; see also loss orientation in Shepherd, 2003). At the same time, failed entrepreneurs will want to construct a professional image to set a legitimate base for and/or signalize their future career actions (Elsbach, 2003; Zott & Huy, 2007; see also restoration orientation in Shepherd, 2003).

Drawing from the narrative theory of entrepreneurial storytelling, we view public entrepreneurial failure narratives as crafting legitimating narrative impressions of the causes of failure (Lounsbury & Glynn, 2001; Martens et al., 2007). Effective narratives employ attributions of entrepreneurial stories that strategically align with the audience's interests and normative beliefs (Elsbach, 1994; Lounsbury & Glynn, 2001). Such narratives provide the means to influence social perceptions of the person concerned (Boje, 1991; Brown & Jones, 1998; Martens et al., 2007) and can thus be important for failed entrepreneurs trying to circumvent potential social stigmatization and improve their psychological well-being (Hayward et al., 2010; Ucbasaran et al., 2009). Often the emphasis in such narrative accounts is on the happy ending and ensuring there is a positive self-presentation

to the public (Lounsbury & Glynn, 2001, p. 551). Communicating critical lessons learnt can be one way of presenting a failure in a positive light (Shepherd & Cardon, 2009). This was evident in the study by Mantere et al. (2013), where some entrepreneurs attributed failure to their old self, subsequently explaining how the new self had learnt from the failure experience.

In the previous section, we noted that research does not support the assumption of a dominant self-serving tendency in entrepreneurial failure narratives (Mantere et al., 2013; Shepherd & Haynie, 2011). This could be different in the case of public narratives as the entrepreneur may apply different tactics to impress, and manage their social image, in the public front-stage setting, rather than explaining the failure in a confidential and anonymous research setting. Then again, the recent study by Garud et al. (2014) argued against overemphasizing a self-serving tendency in projective, future-oriented stories told by entrepreneurs to stakeholders. The authors stated that attributing causes for failures to external factors and providing excuses can backfire and jeopardize legitimacy if such attributions are not credible.

The following empirical analysis investigates the form of post-failure narrative entrepreneurs use to convey an impression of themselves to the public—in other words in the front-stage setting—and how the entrepreneurs articulate the sought after impression. Given the link between sensemaking and impression management, we expect to observe some of the same emotional and cognitive elements, as well as internal and external attributions, as were identified in previous studies (Byrne & Shepherd, 2015; Mantere et al., 2013). However, we expect entrepreneurs to pay attention to managing their legitimacy in public (Elsbach, 2003; Lounsbury & Glynn, 2001; Zott & Huy, 2007) and to mitigating the risk of being socially stigmatized (Cardon et al., 2011; Singh et al., 2015). This is likely to influence the ways in which problem- and emotion-focused coping strategies are presented through public narratives, and how those are combined with internal and external failure attributions.

## **Methods**

### *Data*

Our dataset comprises 118 public entrepreneurial failure narratives, in the form of an account posted on the website of discontinued companies to inform visitors about the shutdown. To construct a homogenous sample, we relied on the Crunchbase database provided by TechCrunch, an online magazine tailored to an audience particularly interested in innovative technology-based companies. The database contains a list of more than 2,600 profiles of software and IT companies that have discontinued operations over the last approximately 20 years. The profiles contain details of the founding team (e.g., names, team size) and the company (e.g., location, date of establishment).

We started the data collection procedure by systematically screening all listed companies for shutdown stories in English on their homepage at the time of the shutdown event using Internet Archive's Wayback Machine (Hackett et al., 2004). Because previous research suggests that sensemaking and failure recovery (Cardon & McGrath, 1999; Cope, 2011) as well as subsequent stigmatization (Shepherd & Haynie, 2011; Singh et al., 2015) are subject to change over time, this approach allowed us to capture entrepreneurs' failure narrativization as close to the actual failure event as possible. Moreover, as these narrative accounts were voluntarily constructed and are not subject to disclosure requirements, they provide an adequate reflection of how failure is processed and especially communicated to a broad audience.

This process yielded 214 shutdown stories that were subsequently examined in more detail. First, we obtained the lead founders' (founder-CEO) LinkedIn profiles to access additional information and to validate the information obtained from the Crunchbase profiles. We checked whether the lead founder was in the company for the whole of its lifespan. If a professional manager replaced the lead founder before the shutdown, we excluded the case from the sample. Moreover, to be conservative and to avoid confounding business failure with a voluntary exit (DeTienne et al., 2015), we excluded cases where a larger competitor had acquired the company and then shut it down. Finally, we excluded shutdown messages that did not clearly state why the entrepreneur(s) decided to shut down their company. For example, if the message said 'for various reasons, we have decided (...),' it was excluded from the final sample. This procedure resulted in 118 usable shutdown stories of discontinued entrepreneurial ventures.



Owing to the focus on shutdown statements in English, the companies in the sample were primarily headquartered in English speaking countries (67% United States, 10% United Kingdom, 4% Canada, 3% Australia, 16% rest of the world). The firms were aged between six months and 11 years at the time they ceased operations. Because our data covers such a long time span, the analysis avoids the risk of business cycles and other momentary exogenous shocks biasing the results. More than a third (39%) of the lead entrepreneurs did not have entrepreneurial experience prior to founding the firm (novice entrepreneurs); 34% had prior experience (serial entrepreneurs); and 27% had prior experience and were additionally involved in multiple businesses while running the firm under scrutiny (portfolio entrepreneurs) (Westhead et al., 2005). The majority of the businesses were founded by teams (57%) rather than single entrepreneurs.

The mean word count in the shutdown notices is 282 with a standard deviation (SD) of 212. The average sentence comprises 23 words (SD = 8). Verbs constitute 15% of the overall word count (SD = 3) and function words such as pronouns and articles constitute 53% (SD = 6) of the words. In 43% of the cases the author of the shutdown notice was the lead entrepreneur, whereas in the remainder, the notice was signed by a team (19%), the lead entrepreneur and the team jointly (8%), or the author could not be clearly identified (29%). The lead entrepreneur being involved in 71% of the shutdown messages suggests that their experiences and feelings are adequately reflected in these stories. The content of the notices—for example, frequent reflection of past experiences and the use of non-technical language—also supports this interpretation. However, only 20% of the notices were written solely from that person’s perspective. The most common perspective was that of the team (46%), followed by that of the company (11%) or a mix of founder, team and company (23%).

### *Analysis Strategy*

Our analysis strategy consists of two steps. In the first step, we conducted a nuanced text analysis of the public shutdown notices. For this purpose, we used the quantitative text-mining technique, latent semantic analysis (LSA) (Landauer et al., 1998), which is established in the research field of computer and information science (e.g., Müller et al., 2016; Sidorova et al., 2008). LSA identifies latent narratives by detecting common semantic text patterns—combinations of words—that share similar linguistic, referencing (for example, pronouns: I or We; time: past or future), cognitive, and affective properties. The text patterns are not mutually exclusive in the resulting latent narratives: they appear with different weights across all identified latent narratives. The narratives are latent

because they cannot be directly observed, instead manifesting themselves as different combinations of weightings that distinguish one latent narrative from another. For the present study, LSA has the important advantage of being suited to analyzing complex interactions of text patterns (for example, cognitive and emotional) in narrativizing entrepreneurial failure (Byrne & Shepherd, 2015; Mantere et al., 2013). The LSA procedure that is described in detail in the next section identified five latent narratives.

In the second step of the analysis, we furthered our interpretative understanding of the five latent narratives by associating them with attributions of causes of failure. The attributions of failure cannot be reliably detected in the semantically focused LSA procedure, hence, we coded them manually. Following recommended procedures for inductive research (Corbin & Strauss, 2008), two researchers analyzed and coded emerging patterns reflecting internal and external failure attributions (Cardon et al., 2011; Mantere et al., 2013) in 50 of the 118 texts. Based on these insights, we defined the final analytical coding scheme that we subsequently applied to all 118 texts. Two researchers conducted the final coding independently of each other. A Cohen's kappa of 0.6 or higher indicated a high level of agreement between the two raters (Landis & Koch, 1977). Consensus coding was used to resolve cases where the two raters initially disagreed.

**Table 3-1:** Causes of business failure given in the shutdown notices

Cause of business failure	Attribution <sup>1</sup>	Frequency (Percentage)
Market conditions (e.g., demand, industry, competition)	External	33 (28.0%)
Individual characteristics (e.g., own mistakes, loss of motivation)	Internal	31 (26.3%)
Pivot (e.g., other projects, exploring new opportunities)	Internal/external	30 (25.4%)
Financial (e.g., revenue, costs)	Internal/external	30 (25.4%)
Funding/Financing	External	20 (16.9%)
Stakeholders	External	16 (13.6%)
Lack of resources (non-financial)	Internal/external	14 (11.9%)
Monetization (e.g., growth, traction)	External	13 (11.0%)
Business model	Internal/external	13 (11.0%)
Product	Internal/external	10 (8.5%)
Economy	External	8 (6.8%)
Fate	External	5 (4.2%)
Legal issues	External	4 (3.4%)
Team	Internal	1 (0.8%)

*Notes:* n=118. <sup>1</sup> Cohen's kappa as a measure for interrater-reliability was 0.61 for internal and 0.62 for external locus of causality.

Table 3-1 shows the perceived causes of business failure by category. Certain categories incorporate both internal and external reasons for failure, as in Cardon et al. (2011). Because the LSA procedure generates a factor score for each latent narrative, they can be analyzed further with conventional statistical techniques. For this purpose, we coded the failure attributions into a binary indicator variable that was assigned the value 1 if the attribution contained internal causes (60%), and 0 if failure was attributed exclusively to external circumstances (40%). We then regressed this binary indicator on the factor scores of the five latent narratives and a set of control variables using logistic regression. The statistical analysis is described in full in its own section following the LSA.

### **Analysis Step 1: Latent Semantic Analysis**

#### *Procedure*

To obtain the words for the LSA, we conducted a computer-aided content analysis of the shutdown notices using the NVivo software package. This procedure yielded more than 33,000 words. To make this large body of text analytically tractable we imposed multiple restrictions on the words to be included in the actual analysis, taking care that the restrictions did not bias the results. First, we excluded duplicates, articles, numbers, and also company and first names as they do not deliver proprietary information on how entrepreneurs process business failure. Second, we excluded all words that appeared only once in the 118 shutdown stories because they cannot contribute to the formation of patterns. This procedure resulted in a total of 1,853 words, which became the basis for the LSA.

We conducted the LSA in four steps (Sidorova et al., 2008). First, we transformed the words and shutdown notices into a term-document matrix that consists of rows representing words and columns representing documents. Thus, the cells of the matrix contain the term frequency of a given word in a particular document. Second, we conducted a commonly used inverse document frequency transformation (Sidorova et al., 2008), which emphasizes the occurrence of rare words in a given document while ignoring the occurrence of more common words.

Third, we used singular value decomposition, a statistical procedure that makes it possible to reduce the dimensionality of the word-document matrix without losing relevant information by identifying groups of highly correlated words (words that occur together in documents) and highly correlated documents (shutdown notices that contain similar words) (Müller et al., 2016). The result of this

procedure is a set of factors that represent the initial latent narratives, with associated term and document loadings, which together describe specific patterns of word usage.

In the fourth step, we interpreted the extracted patterns of word usage. In order to facilitate interpretation, we applied Varimax rotation, a standard statistical procedure, to improve the distinctiveness of the narrative types. An identical rotation was performed with the document loadings matrix to maintain the representation of the documents in the same space. Next, we determined thresholds for the number of words to be extracted for each latent narrative. In line with previous studies (Müller et al., 2016; Sidorova et al., 2008) we extracted the top 1/k absolute high-loading documents and words for a k-factor solution—however, it is important to note cross-loadings remain possible: for example, in the final five-factor solution 370 words loaded positively or negatively on each factor.

To facilitate interpretation, we created two separate files for the high-loading terms of each factor: one for negative and one for positive terms. Then we used the text analysis software Linguistic Inquiry and Word Count (LIWC) (Pennebaker et al., 2001) to examine the psychological and linguistic inventory of each narrative type. One advantage of using the LIWC is that it contains predefined, established dictionaries for the emotional and cognitive content of a given text which facilitates capturing problem and emotion-oriented coping patterns in the latent narratives. As individuals avoid the use of self-references as a way of distancing themselves from their statements and to avoid taking responsibility for their behavior (Newman et al., 2003), we also included words related to the first-person singular (e.g., I, me, my) and plural (e.g., we, our, us).

Finally, constructing narratives involves temporal sequencing (Gabriel, 2004), which in the case of entrepreneurial narratives can go beyond providing the logic to link facts to each other, and can also pertain to narrating a firm's history culminating in the decision to shut down and providing an outlook on the entrepreneur's or the entrepreneurial team's future activities (Martens et al., 2007). Thus, we also analyzed the tense of common verbs to explore the temporal focus of attention in each latent narrative (Tausczik & Pennebaker, 2010).

While the high-loading terms offer information about the distinct linguistic and psychological properties of each latent narrative, scrutinizing the high-loading documents reveals the impressions that the entrepreneurs or the founding teams were attempting to convey to the public. As documents can load positively on more than one latent narrative, we ascribed a document only to the narrative

with the highest factor loading. Next, one of the authors read the shutdown notices associated with a particular narrative type in their entirety, noting the essence of each narrative's storyline and the inherent image presented to the public (Martens et al, 2007). Finally, the latent narratives were interpreted by examining the associated psychological and linguistic concepts and documents, and then comparing the results.

### *Findings*

Latent narratives are identified on multiple levels of abstraction, which is undertaken statistically by selecting a specific number of factors for the singular value decomposition procedure (Müller et al., 2016). We commenced the analysis with a two-factor solution and added further factors one by one, assessing the explanatory value added by each additional factor. While the two-factor solution resulted in a theoretical distinction between predominantly emotional and problem-oriented patterns of text, adding a third factor revealed that the emotion-oriented latent narratives could be further refined based on variations in positive and negative emotional content. Exploring the four-factor solution identified two types of problem-oriented narratives where cognitive processes predominate in both but the types differ in terms of the levels of positive and negative emotional content. Adding the fifth factor resulted in five latent narratives distinctive in terms of their combinations of cognitive and affective processes as well as their temporal sequencing and self-referencing patterns. The six-factor solution added limited value. It did not reveal additional patterns of affective or cognitive processes, but instead, contained two very similar latent narratives that did not contain any dominant patterns of words related to emotional content or cognitive processes. Therefore, we decided to cease the analysis and focus on the five-factor solution as the most informative one.

Table 3-2 summarizes the proportions of positively and negatively high-loading terms as well as their delta for each of the five latent narratives. The proportion indicates the percentage of words among the positively or negatively high-loading terms of a given latent narrative related to a specific concept (e.g., cognitive processes, positive and negative emotional content). Thus, a proportion of 4.9 of positive emotional content in the first narrative means that 4.9 per cent of the positively high-loading terms were related to positive emotional content. The delta is the difference between positively and negatively high-loading terms of a given concept and therefore indicates, for example, whether a certain narrative is predominantly concerned with positive emotional content. For example, the delta of -6.91 for positive emotional content in Latent Narrative 1 in

Table 3-2 means that this narrative does not exhibit much positive emotional content, because words belonging to this concept load negatively more often than positively on this factor. Illustrative text excerpts from the shutdown notices that loaded positively on a particular latent narrative are also reflected in Table 3-2.

Latent Narrative 1 reflects both personal and collective ownership, as the prominent use of first-person pronouns indicates. This narrative exhibits problem-focused content related to cognitive processes that causally explain the failure event. At the same time, the results also point to the presence of negative emotional content. In terms of temporal orientations, this narrative exhibits positive loadings of past, present, and future tenses; with the present tense being the highest loading.

Latent Narrative 2 is characterized by collective ownership, positive emotional content, and a focus on the present. For example, the narratives contain clarifications of the current situation and thank stakeholders for their support.

Latent Narrative 3 is exclusively written from the first-person plural perspective, indicating collective responsibility. In addition, the results indicate a dominant use of negative emotional content and a temporal focus on the past.

Latent Narrative 4 reflects collective ownership by frequently referring to the company's name instead of using first-person pronouns. The narrative exhibits a focus on cognitive content and problem-focused explanations of failure. Moreover, the temporal focus is on the present and, to a lesser extent, the future.

Latent Narrative 5 is predominantly based on first-person singular pronouns and positive emotional content. In addition, the lack of explicit references to time is a feature of this narrative, which thus does not have a clear temporal orientation.

**Table 3-2:** Results of the latent semantic analysis with illustrative text excerpts

	Latent narrative 1			Latent narrative 2			Latent narrative 3			Latent narrative 4			Latent narrative 5		
	Share of high-loading terms			Share of high-loading terms			Share of high-loading terms			Share of high-loading terms			Share of high-loading terms		
	Positive	Negative	Delta	Positive	Negative	Delta	Positive	Negative	Delta	Positive	Negative	Delta	Positive	Negative	Delta
Positive emotional content	4.90	11.81	-6.91	10.17	7.91	2.26	6.86	10.24	-3.38	7.78	9.85	-2.07	10.63	10.37	0.26
Negative emotional content	3.27	1.57	1.70	1.69	5.53	-3.84	3.92	1.20	2.72	0.60	2.96	-2.36	2.42	3.66	-1.24
Cognitive processes	20.00	14.17	5.83	13.56	18.58	-5.02	21.08	22.29	-1.21	22.16	20.02	1.96	14.49	26.83	-12.34
Past tense	4.49	0.79	3.70	4.24	5.93	-1.69	7.35	2.41	4.94	4.19	4.93	-0.74	2.90	7.32	-4.42
Present tense	9.80	2.36	7.44	12.71	1.98	10.73	2.94	11.45	-8.51	10.78	3.94	6.84	7.73	10.37	-2.64
Future tense	1.63	0	1.63	0.85	1.58	-0.73	0.49	1.81	-1.32	1.80	0.99	0.81	0.97	1.22	-0.25
First-person singular	2.04	0	2.04	0.85	1.58	-0.73	0	3.01	-3.01	0.60	2.96	-2.36	4.35	0	4.35
First-person plural	1.22	0.79	0.43	2.54	0.40	2.14	0.49	0	0.49	0.60	0.49	0.11	0.48	1.83	-1.35
Illustrative text excerpts	<p>Unfortunately, we have not seen enough traction to make us want to keep working on this. (...)</p> <p>It's always difficult to share bad news (...) I think it's important to explain the reasons we're making this decision (...).</p> <p>That's the hardest part of giving up any project like this, at any part of the process: the notion that you maybe didn't give it enough of what it deserved.</p>			<p>We're very thankful for all the support that [the company] has received. Many people have helped us, cheered for us, and challenged us.</p> <p>We are tremendously proud (...). Being an entrepreneur is the most rewarding and exhilarating job we can imagine (...)</p> <p>It was pretty amazing and we saw a world of potential.</p>			<p>We are sad to announce that (...) has shut its doors.</p> <p>Unfortunately (...) we have not been able to secure the funding we need to survive commercially.</p> <p>Unfortunately, sales of the product (...) have not been sufficient to support continued development.</p>			<p>[The company] has failed to attract enough users to be sustainable, and we cannot honestly say we have reason to expect that to change.</p> <p>In fact, we understand with even more clarity now why there is so much advice for entrepreneurs - no one who has failed wants their mistakes repeated.</p> <p>We are shutting the company down immediately, though a few of us will stick around to try and support our partners through a transition, and notify others affected by the closing of our doors.</p>			<p>I'm not complaining; it's been a fantastic ride.</p> <p>Although I wasn't able to fulfill my dream (...) it has still been an amazing journey.</p> <p>(...) I thank you with all my heart. To all our wonderful friends and loved ones who provided feedback and support, thanks for making (...) the great product that it was.</p>		

## **Analysis Step 2: Regression**

### *Variables and Descriptive Statistics*

The dependent variable is a binary indicator that captures internal (coded as 1) and external (coded as 0) failure attributions in the shutdown notices (Cardon et al. 2011; Mantere et al., 2013). The independent variables are the factor scores for the five latent narratives identified in the LSA. Furthermore, we controlled for the effect of authorship of the shutdown notices by coding a dummy variable indicating whether the lead entrepreneur was identifiable as the sole author of the notice (Ochs & Capps, 1996). Further control variables included the business age at shutdown (in months) (Shepherd, 2003); location of the business (1=United States, 0=rest of the world) (Cardon et al., 2011); the lead entrepreneur's prior education level (Ucbasaran et al., 2010) and their prior start-up experience. The latter was operationalized with three categories: 1) novice (no prior entrepreneurial experience before the failed business), 2) serial (one or more prior start-ups) and 3) portfolio entrepreneurs (one or more businesses at the same time as the failed business) (Westhead et al., 2005).

Table 3-3 displays the descriptive statistics and the correlations between the dependent, independent, and control variables. It is useful to note that the intercorrelations of the five latent narratives are low to moderate, which suggests that the LSA procedure generated an outcome that distinguishes well between the different latent narratives.



**Table 3-3: Descriptive statistics**

Variable	Mean	SD	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
1. Internal (vs. external) attribution of failure	0.60		1										
2. Latent narrative 1	1.19	1.26	0.12	1									
3. Latent narrative 2	0.50	1.10	-0.00	-0.24*	1								
4. Latent narrative 3	-0.37	1.09	0.08	0.10	0.13	1							
5. Latent narrative 4	-0.38	1.02	-0.10	0.12	0.08	-0.10	1						
6. Latent narrative 5	0.31	1.07	-0.00	-0.04	0.05	0.12	-0.03	1					
7. Business age at shutdown (months) <sup>1</sup>	36.54	23.94	-0.20*	-0.09	0.01	0.07	-0.03	0.02	1				
8. Team (vs. single entrepreneur)	0.57		0.02	0.08	0.02	0.03	-0.14	0.26*	-0.09	1			
9. Author of notice: lead entrepreneur	0.43		-0.20†	0.17†	0.17†	-0.06	0.02	-0.03	0.02	-0.03	1		
10. USA (vs. rest of the world)	0.50		0.16	0.03	-0.08	0.11	0.06	-0.13	-0.19*	0.02	0.02	1	
11. Years of formal education	5.30	2.57	0.06	-0.14	0.02	-0.04	0.06	0.12	-0.15†	0.04	0.04	0.11	1
Entrepreneurial experience													
Novice	0.39		-0.31*	-0.05	0.06	-0.05	-0.02	-0.06	0.29*	0.03	0.04	-0.07	-0.07
Serial	0.34		0.11	0.11	0.11	0.08	0.05	0.12	-0.17†	0.12	0.06	-0.04	-0.08
Portfolio	0.27		0.22*	-0.05	-0.18†	-0.03	-0.03	-0.07	-0.14	-0.16	-0.11	0.11	0.17†

Notes:  $n=118$ . Pearson correlation coefficients. † and \* denote statistical significance at  $p<0.10$  and  $p<0.05$ . The coefficients between categories of the same variable have been omitted (attribution and entrepreneurial experience). <sup>1</sup> Mean and standard deviation of age of business at shutdown in months; correlation coefficient based on the natural logarithm thereof.

## *Findings*

Because of the binary dependent variable (internal versus external attribution of failure), we specify a logistic regression model to examine which latent narratives are associated with which failure attributions. Prior to the final estimation, we examined the model for potential multicollinearity and influential outliers. While we did not find evidence of multicollinearity, graphical techniques and Pregibon's (1981) delta-beta influence statistic revealed one influential observation that biased the results, and that observation was therefore excluded from the final model. Because business age at shutdown is not normally distributed, it was included in the regression model as its natural logarithm. The factor scores of the latent narratives do not have a natural scale. Hence, we z-standardized (0 mean, 1 standard deviation) the scores so that the regression results can be interpreted in units of standard deviation.

We first estimated a model specification that included only the control variables, without the latent narratives. Then we added the latent narrative factor scores to the next model. A likelihood ratio test shows that the addition of the latent narratives improves model fit significantly ( $\chi^2_{25df}=15.11$ ,  $p<0.01$ ). Therefore, the LSA solution as a whole is significantly associated with internal and external failure attributions.

Table 3-4 displays the logit coefficients, heteroscedasticity-robust standard errors and average marginal effects (dy/dx) for both model specifications. The average marginal effects are included to aid interpretation: they can be interpreted similarly to coefficients in a linear regression, whereas logit coefficients do not have an intuitive interpretation. The estimates show that latent narratives 1, 2, and 4 are positively and significantly associated with internal failure attributions, whereas in latent narratives 3 and 5 neither internal nor external causes dominate the failure attribution.

**Table 3-4:** Logistic regression estimates pertaining to internal/external attribution of failure

	Controls only			Latent narratives included		
	$\beta$	SE	dy/dx	$\beta$	SE	dy/dx
Latent narrative 1				1.62**	0.28	0.28
Latent narrative 2				0.90**	0.16	0.16
Latent narrative 3				0.58	0.62	0.10
Latent narrative 4				1.56*	0.41	0.27
Latent narrative 5				0.08	0.18	0.01
Log of business age at shutdown	-0.39	0.37	-0.08	-0.20	0.21	-0.03
Team (vs. single entrepreneur)	0.02	0.40	0.00	-0.21	0.27	-0.04
Author of notice: lead entrepreneur	-0.84*	0.42	-0.17	-1.26*	0.32	-0.22
USA (vs. rest of the world)	0.62	0.43	0.13	0.94	0.28	0.16
Years of formal education	0.03	0.07	0.01	0.08	0.05	0.01
Entrepreneurial experience (base: novice)						
Serial	1.09*	0.50	0.24	1.36*	0.32	0.26
Portfolio	1.42**	0.52	0.30	1.79**	0.33	0.33
Intercept	0.99	1.51		0.40	1.47	
Wald chi-squared test of model fit	18.08* (7 degrees of freedom)			26.63** (12 degrees of freedom)		
Nagelkerke pseudo R-squared	0.22			0.36		

*Notes:*  $n=117$  (one influential observation excluded). \* and \*\* denote statistical significance at  $p<0.05$  and  $p<0.01$  (two-tailed).  $\beta$  = logit coefficient; SE = robust standard error; dy/dx = average marginal effect. LSA factor scores for the latent narratives are  $z$ -standardized (0 mean, 1 SD).

## Discussion

Our analysis contributes to the narrative literature on entrepreneurial failure (Byrne & Shepherd, 2015; Cardon et al., 2011; Mantere et al., 2013) by providing novel insight into how entrepreneurs construct public failure narratives. The latent semantic analysis (LSA) identified five latent narratives in 118 public shutdown notices, which we subsequently associated with internal versus external attributions of failure using logistic regression analysis. Table 3-5 presents a verbal summary of the LSA and logistic regression results with a descriptive name and a brief interpretation for each narrative.

In the following analysis, we compare our results particularly with the narrative types in Mantere et al. (2013). From the seven narrative types in that study, we focus on the four used by entrepreneurs rather than by other stakeholders and the media. Catharsis emphasizes personal

responsibility, learning effects (the new self having abandoned the old self) and attributes failure to internal causes. Hubris points to collective responsibility and attributes failure either to irrational behavior through collective overconfidence (internal) or to an atypical social context in which failure was a common occurrence (external). Nemesis and Fate attribute failure to external causes either by blaming other actors or by blaming external societal factors respectively. We begin with two general observations on the results, and then move to a detailed analysis of the five narratives shown in Table 3-5.

**Table 3-5:** Composition of public narratives of entrepreneurial failure

	<b>Public narrative</b>	<b>Time reference</b>	<b>Person reference</b>	<b>Emotion/cognition</b>	<b>Attribution</b>	<b>Impression</b>
1	<i>Catharsis-Yet-Hubris</i>	past, present and future	personal and collective	negative emotions, rational problem-focus	internal	<i>'Optimal distinct'</i> : Presenting individual and collective emotional involvement in causally linked events leading to failure, and expressing plausible and comprehensive projections for the future.
2	<i>Shared Hubris</i>	Present	collective	positive emotions	internal	<i>'Happy'</i> : Presenting collective celebration of a 'feel-good' failure experience in the here and now.
3	<i>Shared Catharsis</i>	Past	collective	negative emotions	internal, external	<i>'Compassionate'</i> : Presenting a collective empathetic reflection of past events leading to failure, through expressing both personal and social circumstances.
4	<i>Prospective Catharsis</i>	Future	None	rational problem-focus	internal	<i>'Projective'</i> : Presenting a future image emphasizing the personal learning effects of failure for new professional activities.
5	<i>Personal Hubris</i>	None	personal	positive emotions	internal, external	<i>'Heroic'</i> : Presenting glorification of individual responsibility for a 'happy' ending of the failure which was partially caused by external social pressures.

*Note:* The number refers to the respective Latent Narrative in Table 3-2.

First, three of the five narratives are significantly associated with internal attributions of failure, whereas the remaining two do not have a clear tendency to either type of attribution. This finding partly aligns with the results in Mantere et al. (2013) that identified two narrative types used by entrepreneurs (Catharsis and Hubris) that attribute failure to internal causes, and thus do not conform to the assumption of a self-serving tendency in attribution theory (Heider, 1958; Rogoff et al., 2004; Weiner, 1986). On the other hand, Mantere et al. (2013) identified two narratives (Fate and Nemesis) used by entrepreneurs that attribute failure to external causes. Our results did not show a single narrative dominated by external attributions. We argue that the difference between back-stage (confidential research settings) and front-stage (public sphere) narratives explains this finding. Public narratives that justify failure by blaming other actors or external events construct an unfavorable image of the entrepreneur because such narratives communicate a denial of responsibility, which is against the common public understanding that entrepreneurs play a role in business failures (Cardon et al., 2011). Moreover, Schlenker (1980) and Sutton and Callahan (1987) argue that accepting responsibility may elicit sympathy and also credibility as observers automatically assume a link between an entrepreneur's actions and performance outcomes. Thus, our study suggests that front-stage public narratives of entrepreneurial failure have a stronger focus on internal attributions in explaining failure, than do back-stage narratives.

Second, our analysis extends our knowledge of two particular narrative types of entrepreneurial failure identified by Mantere et al. (2013): Catharsis and Hubris. In particular, our study identifies a public narrative that offers a novel insight into the competing yet complementary nature of these two narratives. Further, we elicit the role of the time reference and also of emotion and problem-focused patterns (Byrne & Shepherd, 2015) in the construction of different forms of public Catharsis and Hubris narratives. We believe that the identification of public failure narratives helps advance our understanding of how entrepreneurs create public stories (Garud et al., 2014; Lounsbury & Glynn, 2001) about failure and themselves. The results also advance understanding of how public narratives provide not only a means for sensemaking (Byrne & Shepherd, 2015; Mantere et al., 2013) but also a vehicle for managing public impressions in a way that arguably acts to forestall stigmatization by the public (Cardon et al., 2011; Singh et al., 2015). Furthermore, our study extends Shepherd and Haynie's (2011) argument that entrepreneurs adopt a negative self-view under certain conditions. One such context presented by the authors is when there is a limited audience to whom to communicate failure. Our results suggest that adopting a negative self-view (Catharsis) can be relevant in a broader public setting too.

### *Narrativizing Catharsis-Yet-Hubris*

The first public narrative that we identified is characterized by the use of a wide range of different, but balanced text patterns. It is constructed around a balanced emphasis on personal and collective responsibility for failure. Further, it exhibits loss orientation (coping with negative emotions) and problem-focused patterns (Byrne & Shepherd, 2015; Shepherd, 2003) as well as a balanced use of past, present, and future time references. Hence, it constructs causally linked events leading to the failure, while at the same time projecting legitimate impressions for the future (Garud et al., 2014), for example, by emphasizing learning effects. Following the narrative types Catharsis and Hubris in Mantere et al. (2013), we call this public narrative Catharsis-yet-Hubris. Catharsis emphasizes personal responsibility for failure, focuses on coping with negative emotions and tends to use internal narrative attributions when justifying failure. Hubris is characterized by collective responsibility for failure, where the entrepreneurs come across as (over-)confident by expressing only partial involvement in the events leading to the failure, while referring to internal social pressures when justifying a failure event. Elements of both narrative types are present in our Catharsis-yet-Hubris public narrative.

The Catharsis-yet-Hubris narrative communicates multiple internal narrative attributions (time-based, cognitive and emotion-focused) to explain what happened, is happening, and will happen in the context of the failure experience. At the same time, the narrative balances responsibilities by presenting personal involvement in the failure event, on the one hand, and emphasizing failure as an organizational event, on the other. Accordingly, we argue that the Catharsis-yet-Hubris narrative constructs optimal distinctiveness in a public failure story ‘to balance the need for strategic distinctiveness against that of normative appropriateness’ (Lounsbury & Glynn, 2001, p. 552). In other words, it creates a distinct-yet-legitimate failure impression through multiple plausible and comprehensive explanations (Garud et al., 2014) to address a wider audience’s varying interests and normative beliefs.

### *Narrativizing Personal and Shared Hubris*

Our analysis identifies two public failure narratives related to the Hubris narrative type (Hayward et al., 2006; Mantere et al., 2013). Shared Hubris constructs a narrative image that self-confidently communicates failure as a happy ending (Lounsbury & Glynn, 2001), presenting a positive collective emotional appraisal of the failure event in the front-stage setting. A focus on the present tense without explicit references to the past communicates strong self-esteem and weak loss

orientation (Shepherd, 2003). This is evident in the absence of long explanations of how and why the failure happened. Instead, these narratives aim to create a positive feeling among customers and other stakeholders, for instance by thanking them for the support they gave the firm. This narrative reflects the Hubris type in Mantere et al. (2013, p. 470) because of the collective orientation, the focus on positive emotions ‘sidestep[ping the] experience of loss,’ and a lack of emphasis on personal responsibility. Moreover, we find that the public Shared Hubris narrative develops a story for the here and now, leaving an imprint of a positive emotion-focused image of failure for the public.

In contrast to the Shared Hubris narrative, that of Personal Hubris balances the use of internal and external failure attributions. Although it exhibits some of the same characteristics as Shared Hubris (enthusiasm, overconfidence), this narrative emphasizes the entrepreneur’s personal responsibility for a ‘happy’ failure experience. However, it also refers to other actors and external social influences as being the actual cause of the firm going out of business. In addition, Personal Hubris avoids pronounced references to the past, the present, or the future. This points to a tendency to avoid direct confrontation with specific events causally linked to the failure. Accordingly, Personal Hubris is similar to Shared Hubris in that its narratives focus on the presentation of a positive failure experience and avoiding problem-focused explanations of failure. But it differs from Shared Hubris in that the entrepreneur adds a personal glorification of the failure experience creating an impression of a heroic failure.

#### *Narrativizing Shared and Prospective Catharsis*

We theorize the remaining two public narratives from our analysis to present nuanced variations of the Catharsis failure narrative. Mantere et al. (2013) defined their single Catharsis narrative having identified an emphasis on personal suffering arising from failure and responsibility for that failure, and also the use of internal attributions to explain causes of failure. In the context of public failure narratives, we find no evidence that Catharsis solely emphasizes personal attachment and internal attributions. Instead, our first type Shared Catharsis is characterized by an emphasis on collective emotion-focused coping with the loss (Byrne & Shepherd, 2015). These narratives express the team’s and/or the organization’s emotional attachment to the firm’s activities and construct a balanced reflection of the events that led to the closure of the business. In the spirit of Aristotle’s (1996) Catharsis, we suggest that the Shared Catharsis narrative’s emphasis on collective emotional attachment and acknowledging intra-organizational causes of failure arguably

allows entrepreneurs to liberate themselves and the associated team members from a potentially negative emotional burden related to the failure. In other words, a Shared Catharsis narrative represents collective entrepreneurial compassion (Shepherd, 2015) when relating an impression of failure.

In contrast to Shared Catharsis, the narrative attribution of Prospective Catharsis accepts personal responsibility for the cause of failure, which is truly cathartic in the Aristotelean (1996) sense. However, this public narrative type favors presenting an image of problem-focused coping over emotional coping to manage failure (Byrne & Shepherd, 2015). In particular, it focuses on the cognitive processing of failure by referring to explanations based on future trends and expectations. Hence, we argue that Prospective Catharsis reflects a form of prospective impression making, based on a written projective account (Garud et al., 2014), which expressly adds a time reference to the existing theorizing of Catharsis narratives. While Shared Catharsis deals with the past to overcome negative emotional burdens in the present, Prospective Catharsis deals with the present and the future to create a positive image of the failure event, showing that failure was only the beginning of a new phase. This is similar to the finding identifying learning based on abandoning the old self in favor of a new self (Mantere et al., 2013).

### **Limitations and Future Research**

Although applying the LSA to business shutdown notices has many advantages in examining the construction of public failure stories, there are also drawbacks to the approach. We see at least four limitations that could offer interesting avenues for future investigations of the narratives of entrepreneurial failure.

First, our study is limited to examining the entrepreneur's/entrepreneurial team's/organization's perspective on constructing public failure narratives. An interesting question for further research is how different stakeholder audiences (for example, former employees, customers, suppliers, family and friends, the media) make sense of and react to different narrative approaches to presenting business failure (Cardon et al., 2011). Therefore, we propose that future research efforts should endeavor to capture the 'narrator-reader' perspective, in order to develop our knowledge of how discursive narrative accounts, embedded in different cultural contexts (Mantere et al., 2013; Vaara, 2002), socially construct a failure impression following a written shutdown notice.



Second, the current research is not overly informative on how different public shutdown narratives can proactively shape the process of social stigmatization (Singh et al., 2015). We would encourage further discursive and process-oriented research to develop our understanding of the potential of public shutdown narratives as a cultural means to imprint social impressions (Lounsbury & Glynn, 2001) and to circumvent negative social stigmatization occurring over time (Shepherd & Haynie, 2011).

Third, although our study captures the public failure narrativization as close to the actual failure event as possible, we were not able to investigate the back-stage scenarios that could have explained the process behind the composition of the narrative. It would have been interesting to examine why a particular approach was adopted for the shutdown notice, for instance by observing the immediate social dynamics within the organization, such as the emotion and problem-focused debates among different organizational actors (Byrne & Shepherd, 2015) that influenced the construction of the narrative prior to posting the public announcement online. In addition, we propose that future studies that are able to observe a longer, historical account of causally linked events (Stevenson & Greenberg, 2000) leading to an organization's failure could further enhance the theorizing of the intended and unintended meanings communicated in public narratives of entrepreneurial failure.

Fourth, although we uncovered combinations of emotional and cognitive narrative accounts, our study was unable to observe the consequences of the different public failure narratives on the entrepreneurs' actual coping strategies (Shepherd, 2003). For example, future studies could investigate whether the public presentation of Shared Catharsis actually helps entrepreneurs and team members to experience an emotional happy ending and liberate themselves from the negative emotional burden related to the failure event. Hence, we call for more research to explain the relationship between the application of different types of public narratives and their actual consequences for individual actors involved in the organizational failure event.

## **Conclusion**

Start-up businesses failing and ceasing operations is a common occurrence (Shepherd, 2003). Prior research has shown that while often a traumatizing and stigmatizing experience (Cope, 2011; Singh et al., 2015), failure can also be beneficial if the actors involved in it make sense of the experience and learn from it (Byrne & Shepherd, 2015; Shepherd, 2003). The focus in previous research has

been on emotional coping and cognitive sensemaking from entrepreneurial failure. The present study adds to this literature by shifting the focus from retrospective sensemaking in back-stage narratives collected in confidential research settings, to front-stage narratives composed for a public audience. We present five distinct public narratives of entrepreneurial failure that extend the theorizations found in prior research (Mantere et al., 2013) and show how business failures are presented and articulated in public. We invite further research to build on our findings and expand our understanding of public failure narratives. In particular, we encourage investigation of the processes through which these narratives emerge and how different narrative approaches affect the entrepreneurs, other organizational stakeholders, and actors outside the failed organization.

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#### ***4 The long-term effects of business failure (Study III):***

### ***Do You Plead Guilty? Exploring Entrepreneurs' Sensemaking-Behavior Link after Business Failure***

#### **Abstract**

Taking account of prior entrepreneurial experience, this study explores how the perceived cause of business failure influences an entrepreneur's decision to start another business or to abandon entrepreneurship. Using Qualitative Comparative Analysis, we find that the attributional dimensions of locus of causality, controllability, and stability explain a large proportion of novice, serial, and portfolio entrepreneurs' subsequent behavior in terms of abandoning entrepreneurial activity after business failure. Additionally, we found commonalities and differences between the different types of entrepreneurs. While across all entrepreneurs perceiving the cause of business failure to be permanent yet controllable leads them to decide against starting another venture, differences in the decision to seek a different career path are evident, and depend on whether the entrepreneurs assess the cause of business failure to be internal or external, controllable or uncontrollable, and permanent or temporary.

#### **Introduction**

A business failure is a defining moment in the life of any failed entrepreneur. Business failure should perhaps be designated a crossroad as some individuals come back from business failure and found new businesses (Hessels et al., 2011), while others follow an entirely different career path. Some of the key aspects involved are how entrepreneurs process and explain the event of failure and how it affects their subsequent behavior. Hence, business failure provides a clear signal that something went wrong or no longer works, and consequently reveals valuable cause-effect relationships and prompts an attribution search that can help entrepreneurs deal with a potentially negative entrepreneurial experience (Cardon et al., 2011; Cope, 2011).

Attributing the cause of business failure is a mental process producing cognitive, affective, and behavioral outcomes for failed entrepreneurs (Ford, 1985). More specifically, it provides relevant information about undertaking corrective behavior (if necessary or possible) which may in turn determine future courses of action pursued by entrepreneurs in response to business failure (Cardon & McGrath, 1999; Dweck & Leggett, 1988; Ford, 1985). Hence, the explanations entrepreneurs offer for the failure of their previous entrepreneurial endeavor may affect their future career paths



because those explanations represent the starting point of a process culminating in a decision on whether to re-embark on entrepreneurship (Shaver & Scott, 1991).

Previous studies confirm the importance of attribution theory (Heider, 1958; Weiner, 1985) to a variety of entrepreneurial activities such as starting a business (Shaver et al., 2001) or predicting persistence in start-up activities and successful new venture creation (Gatewood et al., 1995). Within the specific context of entrepreneurial failure, prior applications of attribution theory have signaled the existence of cognitive biases (Rogoff et al., 2004; Zacharakis et al., 1999) and reported critical implications for entrepreneurs recovering from, processing and learning from failures (e.g., Mantere et al., 2013), and going on to achieve success in subsequent entrepreneurial endeavors after such failures (Yamakawa et al., 2015).

Understanding the lives of entrepreneurs requires understanding the reasons behind any business failures, yet research on the specific question of how the attributions offered by failed entrepreneurs for past events predict their future activities remains scarce (Cardon & McGrath, 1999; Shepherd, 2003). The question remains whether the behavioral responses of entrepreneurs attributing the cause of business failure to either internal or external factors, rendering it controllable or uncontrollable, or assessing the cause of their business's failure to be permanent or temporary vary according to whether they have significant prior entrepreneurial experience or not.

## **Materials and Methods**

To address the above research question, the current study adopts a configurational perspective to analyze how specific configurations of the attributional dimensions of a perceived cause of business failure lead to entrepreneurs being willing to start a new venture or to them abandoning entrepreneurial activity (EA). Specifically, we choose Qualitative Comparative Analysis (QCA) (Ragin, 1987) to support this study, as it uniquely captures the complexity of the sensemaking efforts of failed entrepreneurs. More specifically, QCA is particularly appropriate in this study as it rests upon the notion of causal conjecture and equifinality as opposed to analyzing net-effects (Muñoz & Dimov, 2015). This method acknowledges that different combinations might explain an outcome, in other words, different combinations of attributions might explain *the same* outcome. In the context of this study, the outcomes are an entrepreneur's decision to remain entrepreneurial or to pursue an entirely different career path.

To identify the causes of business failure as perceived as close as possible to the point in time when the business failure actually happened, we rely on written accounts posted on the homepages of discontinued businesses to inform visitors about their closure. By analyzing these voluntarily constructed accounts, we avoid retrospective sensemaking and potential recall bias and approximate the actual failure event. Our sample was gathered by systematically screening more than 2,600 technology-based companies listed on the *Crunchbase* database (managed by *TechCrunch*) as having discontinued service provision. A significant number of those firms had posted shutdown notices in English on their homepages offering specific reasons for the failure of the business.

Additionally, we accessed the founders' LinkedIn profiles wherever available to capture their entrepreneurial experience before the failure of their last business and to assess whether the entrepreneur decided to remain entrepreneurial or to pursue an entirely different career path. This procedure identified 111 usable shutdown messages of discontinued entrepreneurial ventures that were ultimately included in our sample. The data were obtained from two separate sources, thus negating the threat of common method variance. Of the shutdown messages, 72.1% were either directly signed by the founder or the founding team suggesting that entrepreneurs' impressions are adequately reflected within these notices.

The businesses were primarily headquartered in English speaking countries (67.6% United States, 10.8% United Kingdom, 2.7% Canada, 18.9% rest of the world) and shared a common cultural background. Entrepreneurs had run their businesses for an average of 3.4 years at the time of failure. Moreover, our sample comprises multiple points in time when entrepreneurs experienced business failure (April 2004 to March 2014). As our data covers a 10-year time-span, we avoid the risk of business failure being attributable to cyclical trends and issues such as a short-term economic crisis.

The outcome focused upon in this study is the restarting of EA in the form of a new venture. Analyzing a non-outcome can lead to richer conclusions in configurational studies (Krause et al., 2014), and hence we included the non-outcome, that is, abandoning EA. As we could not scrutinize the entrepreneurs' entire career, we focused solely on the next career move after business failure. In so doing, we excluded founders who restarted EA at a later stage in their career. Hence, entrepreneurs who started a subsequent venture directly after experiencing a previous business

failure were allocated a score of 1, while those who chose a different career path were allocated a score of 0.

**Table 4-1:** Coding scheme of the attributional dimensions

<b>Attributional Dimension</b>	<b>Frequency</b>	<b>Illustrative Text Excerpts</b>
Internal – controllable – permanent	24	<i>“Over the past 3 years, we have tried various products and markets in the event industry and have not made a business with growth.”</i>
Internal – controllable – temporary	18	<i>“First, we had a major, avoidable hard drive crash.”</i>
Internal – uncontrollable – permanent	10	<i>“Throughout my teenage years and early 20s, I became fascinated with modified Volkswagens. However, I am no longer.”</i>
Internal – uncontrollable – temporary	8	<i>“Unfortunately, we didn’t have enough cash to properly market the technology.”</i>
External – controllable – permanent	5	<i>“Unfortunately the news on [the company] is not so good. [...] having had a ‘no’ from [customer 1] and no further orders from [customer 2].”</i>
External – controllable – temporary	3	<i>“While the nature of our financing meant that the financial market crisis overtook us more abruptly than most, in the end it’s my responsibility that we hit the wall like this.”</i>
External – uncontrollable – permanent	20	<i>“[the company] ceases its activities as of today, due to bad economic prospects within the music and online advertising market.”</i>
External – uncontrollable – temporary	23	<i>“Due to the tough economic climate, we are planning to cease operations and shut down the company in the near future.”</i>

As illustrated in Table 4-1, the shutdown notices in our sample offered various explanations of why entrepreneurs discontinued trading. In this study, we focus on three conditions—the three attributional dimensions suggested by Weiner (1985) that have been found to be particularly relevant in achievement settings (e.g., success and failure)—the perceived locus of causality, the perceived controllability, and perceived stability of the cause.

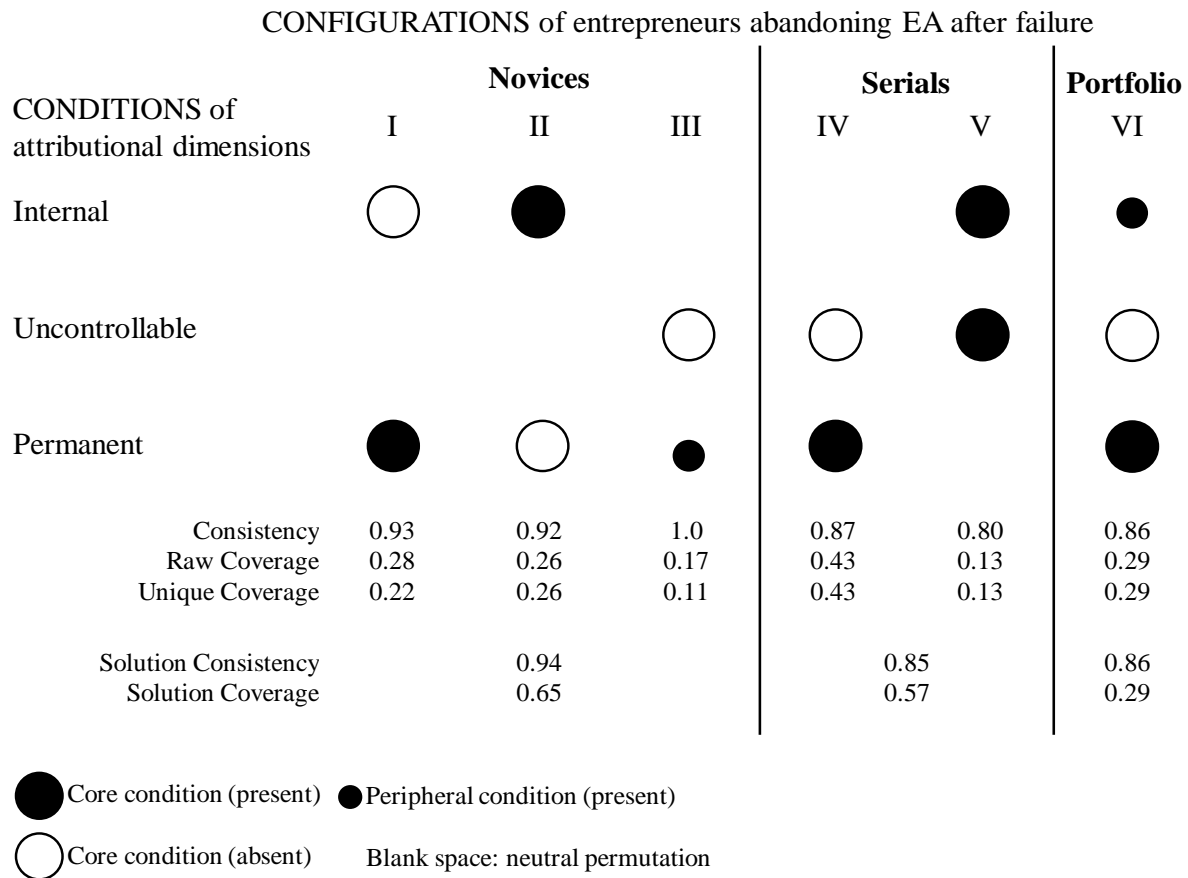
The conditions were determined by manually coding the causes of business failure, as stated in the shutdown notices. Each explanation was first identified and then evaluated in terms of the three attributional dimensions: Locus of causality was coded as 1 for primarily internal causes, and 0 for primarily external causes. Controllability was marked as full-member for primarily uncontrollable causes and non-member for controllable causes. Stability was coded as 1 for permanent causes and 0 for temporal causes. This procedure was conducted by two of the authors resulting in a satisfactory interrater-reliability. Cohen's Kappa was used as a measure of agreement between the two raters, and was found to be substantial at 0.66 (Landis & Koch, 1977). Consensus coding was then used to resolve those cases on which the two raters initially disagreed.

We divided our sample into three groups based on the lead-founders' previous entrepreneurial experience and subsequently ran three separate analyses: for novice entrepreneurs (no prior EA before business failure), serial entrepreneurs (entrepreneurs who started up and exited more than one previous venture before experiencing business failure), and portfolio entrepreneurs (operating more than one business simultaneously when business failure happened).

## **Results**

QCA identifies necessary and sufficient conditions (Ragin, 1987). The separate necessity analysis revealed no such conditions for the restarting EA outcome or for the non-outcome, abandoning EA. The sufficiency analysis for the restart outcome did not return any meaningful results for any of the three types of entrepreneur. Hence, our analysis results in three configurations for novices, two configurations for serial entrepreneurs, and one configuration for portfolio entrepreneurs explaining why entrepreneurs do not immediately start another venture after a business failure.

**Figure 4-1:** Results on the termination of EA for novice, serial, and portfolio entrepreneurs



The solutions for novice, serial, and portfolio entrepreneurs are presented in Figure 4-1. Following Ragin (2008), filled circles indicate the presence of conditions, whereas empty circles indicate their absence. Large circles represent core conditions that are part of both the intermediate and parsimonious solution, and small circles those peripheral conditions that are only part of the intermediate solution.

With regard to coverage levels, it is evident that the combination of the locus of causality, controllability, and stability dimensions explain a higher proportion of the phenomenon for novice entrepreneurs abandoning EA (65%), a still high proportion for their serial counterparts (57%), but a smaller proportion of the phenomenon for portfolio entrepreneurs abandoning EA (29%). According to our analysis, both commonalities and differences exist. Thus, there are two almost identical configurations (III and IV) that explain why both novice and serial entrepreneurs abandon EA, although the permanent cause is only a peripheral condition for novices. Configuration VI,

which explains portfolio entrepreneurs abandoning EA, is also very similar, but requires the perception of the cause to be internal as a peripheral condition. Additionally, we found two configurations that explain exclusively why novice entrepreneurs (I and II) do not re-embark on entrepreneurship and one configuration that illustrates exclusively why serial entrepreneurs (V) do not start another venture after business failure.

Apparently, causes the entrepreneur perceives as controllable and permanent regardless of the locus of causality (configuration III and IV) likewise lead novice and serial entrepreneurs to abandon EA. In configurations I and II the controllability of causes does not matter, instead the perception of external and permanent causes and also internal and temporary causes explains why novices do not start another business. Finally, serial entrepreneurs are discouraged from re-embarking on entrepreneurship when they attribute business failure to internal and uncontrollable causes (configuration V).

## **Discussion**

Our study paves the way for further empirical studies on entrepreneurs' professional lives following business failure (Ucbasaran et al., 2013) by contributing to existing literature in at least two distinct ways. First, we extend the stream of literature analyzing the differences between those entrepreneurs who start a subsequent venture after the closure of their former business, and those ex-entrepreneurs who do not re-embark on entrepreneurship after their previous entrepreneurial endeavor (see, Hessels et al., 2011; Schutjens & Stam, 2006; Ucbasaran et al., 2006). Thus, our analysis confirms locus of causality, controllability, and stability are important aspects of processing and explaining business failure, and to a large extent explain novice, serial, and portfolio entrepreneurs' subsequent behavior with regard to abandoning EA after business failure, or their focusing on the other businesses they control.

The results of this study should encourage a more nuanced appreciation of failure attributions, and especially how business failure might affect entrepreneurs on the cognitive, affective, and behavioral levels until they arrive at the decision to re-embark on entrepreneurship or not (Mantere et al., 2013; Yamakawa & Cardon, 2015). Analyzing these important outcomes could further enhance our understanding of what drives entrepreneurs to remain entrepreneurial, to pursue an entirely different career path, or to focus on the businesses they currently operate.

With regard to restarting EA by founding another venture following a business failure, our analysis revealed no shared pattern. This is particularly interesting as it allows us to speculate. While attributing the cause of business failure internally may result either in a helpless- or a mastery-reaction (Cardon & McGrath, 1999), it has been widely acknowledged that denying responsibility for failure favors the self (Brown, 1997) and is linked to maintaining self-efficacy among other things (Drnovšek et al., 2010; Engel et al., 2014; Tay et al., 2006). As self-esteem is sustained, we would expect denying responsibility to play an important role in motivating failed entrepreneurs to start another venture. As we could not find support for such a relationship, our study may prompt further research investigating the role of other concepts and conditions (e.g., entrepreneurial alertness, learning, stigmatization) during and after entrepreneurs' recovery from business failure.

Second, the results contribute to the literature distinguishing novice entrepreneurs from their serial and portfolio entrepreneur counterparts (Westhead & Wright, 1998; Westhead et al., 2005). That is because this research finds commonalities and differences between both types of entrepreneurs with regard to the configurations that lead to abandoning EA after a business failure. In the case of novice and serial entrepreneurs, we found that permanent but controllable events partly explain why both types of entrepreneurs abandon EA. Interestingly, portfolio entrepreneurs decide against starting another venture when acknowledging personal involvement in the failure event. This points to a general inability among entrepreneurs to process the reasons for business failure when they view a particular failure event as a result of rather enduring forces, that is, their perceived inability to create a sustainable business. Interestingly, entrepreneurial experience does not seem to mitigate that inability, thus potentially indicating the severity of the causes of business failure mentioned above.

Moreover, further contrasting the unique configurations of novice and serial entrepreneurs abandoning EA after business failure indicates a certain shift in the focus of attention in the event of a business failure. While in the case of serial entrepreneurs exclusively assuming personal involvement (in combination with having no control over the business failure event) is a core condition in explaining the decision not to re-embark on entrepreneurship, novice entrepreneurs abandon EA when they attribute business failure to both internal and external circumstances. Moreover, while novice entrepreneurs place increased emphasis on perceived permanence or variability, serial entrepreneurs tend to focus on the degree of controllability of a cause to inform their decision to opt for a different career path.

Apparently, entrepreneurial experience prompts people to evaluate and process business failure differently, which might in turn indicate that entrepreneurs actually learn to make sense of business failure. This is an important aspect, as it highlights how the present research contributes to the stream of literature suggesting that entrepreneurs might learn from failure as they evolve (potentially at least) from being novice entrepreneurs to serial entrepreneurs (Politis, 2008; Politis & Gabrielsson, 2009). Future research could explore in greater detail how entrepreneurial experience affects the psychological processing of business failure. What heuristics and coping mechanisms do novice and habitual entrepreneurs apply following business failure? What are the communalities and differences? Which mechanisms are the most effective? These are important questions that remain to be answered before we will fully understand entrepreneurs' lives after business failure.



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## ***5 Discussion and Conclusion***

The purpose of this dissertation was to investigate how business failure affects the subsequent lives of entrepreneurs. Building upon multiple methodological approaches and diverse literatures, it provides a nuanced examination of specific immediate, intermediate, and long-term effects of business failure on the individual entrepreneur, that is, the stigma associated with business failure, the way entrepreneurs make sense of and explain their previous entrepreneurial endeavor to a fairly broad public audience, and finally how the sensemaking efforts of failed entrepreneurs can signal their future decisions and behavior. As a consequence, this dissertation makes a number of contributions including to (but not limited to) the entrepreneurship literature in general, the emerging stream of literature on entrepreneurial failure more specifically, as well as that on attribution theory. I will elaborate on these individual contributions in the following sections before I conclude this dissertation with some final thoughts.

### **Entrepreneurship**

This dissertation contributes to the field of entrepreneurship in three principal ways. First, the three studies presented in this dissertation reveal the diverse effects of business failure on entrepreneurs' subsequent lives and how entrepreneurs respond to and cope with the potentially severe consequences stemming from the failure of their former business (Ucbasaran et al., 2013). Second, the habitual entrepreneurship literature has acknowledged that entrepreneurs must cope with the psychological and financial implications of business failure to gain the motivation to re-enter entrepreneurship (Cope, 2011; Shepherd, 2009; Ucbasaran et al., 2006). However evidence on what informs these decisions remains scarce. Thus, by analyzing the sensemaking-behavior-link, this dissertation bridges entrepreneurial failure and habitual entrepreneurship literatures and provides some new insights into how the perceived causes of business failure determine entrepreneurs' subsequent decision making and ultimately their future career paths. Third, causal attributions have been shown to be critical for a great variety of purposes throughout the entrepreneurial process (Gatewood et al., 1995; Shaver & Scott, 1991; Yamakawa et al., 2015). However, attribution theory has been relatively neglected in entrepreneurship research (Harvey et al., 2014). Hence, this dissertation extends and deepens our understanding of attributions within the field of entrepreneurship.

## **Entrepreneurial failure**

Researching business failure on an individual level is considered one of the important phenomena in the field of entrepreneurship, but remains a difficult one to study. Until recently, much of the research has been conducted either conceptually or based on narrative evidence for example in the form of case studies (Ucbasaran et al., 2013). This dissertation formally examines how business failure affects failed entrepreneurs on an individual level and the implications for the public perception of them, their sensemaking and self-presentation, and future decision making and behavior. Each of the three studies presented in this dissertation could meaningfully advance the emerging stream of entrepreneurial failure and encourage future research in this direction.

In Chapter 2, I explored the social costs for failed entrepreneurs arising from negative judgmental reactions and the stigma associated with business failure (Singh et al., 2015; Sutton & Callahan, 1987; Wiesenfeld et al., 2008). I found that observers judge failed entrepreneurs more negatively when they perceive them to be either personally involved in the actual failure event, claiming that they were not in control or when business failure is presented as a rather permanent event. Moreover, the relative strength of these effects varies depending on whether business failure is considered a stable (as in recurring) or unstable (as in non-recurring) event. Finally, using conjoint analysis as an analytical approach allowed taking account of the characteristics of the failure event to the same degree as the characteristics of the observers (Shepherd & Patzelt, 2015). Thus, according to my analysis, observers with high levels of self-efficacy belief evaluate failed entrepreneurs more positively than individuals exhibiting low levels of self-efficacy. In sum, these findings may advance existing literatures in multiple ways.

First, business failure as well as subsequent stigmatization often represent a threat to an entrepreneur's identity (Cope, 2011; Shepherd, 2003; Shepherd & Haynie, 2011). By exploring the judgment approach of individuals when tasked with evaluating failed entrepreneurs, I contribute to the stream of literature assessing the effectiveness of stigma and impression management tactics identified in previous studies (e.g., Semadeni et al., 2008; Tomlinson & Mryer, 2009). Hence, this study provides a systematic view of how entrepreneurs can communicate the failure of their former business to mitigate the negative reactions by observers. Interestingly, contrary to what Weiner's (1985) attribution theory would predict, I found that observers judge failed entrepreneurs more negatively when entrepreneurs claim that they could not have avoided the failure of their business. This points to an increased importance of the context in which business failure is communicated

and possibly the influence of other concepts such as honesty and credibility (Sutton & Callahan, 1987). Hence, more research is warranted exploring the specific conditions for stigma management tactics in response to business failure.

Further on, existing research highlights the importance of institutional and cultural factors as potential moderators for explaining varying public attitudes toward business failure and the degree of stigmatization inherent across and even within certain countries (Cardon et al., 2011; Efrat, 2006; Lee et al., 2011; Simmons et al., 2014). Building upon this stream of literature, the first study contributed to recent research formally examining the role of individual characteristics of observers in their judgment policy (Jenkins et al., 2014; Shepherd & Patzelt, 2015) thus shifting the focus of attention to the underlying mechanisms of these societal and cultural level effects (Singh et al., 2015). Thus, according to my analysis, observers whose belief in their personal competence is strong may exhibit an increasingly positive attitude toward entrepreneurs who experienced business failure, which then translates into a positive judgmental reaction.

Furthermore, chapter two might advance research on self-efficacy beliefs. While much of the previous research concerned with self-efficacy covers intrapersonal aspects such as motivation, attitudes, and emotional reactions of individuals with high levels of self-efficacy belief in various settings (Bandura, 2012; Gist, 1987; Thoms et al., 1996), less is known about the importance of self-efficacy in interpersonal contexts. I believe this extension might offer valuable implications for a variety of phenomena such as leadership (Gong et al., 2009) and in-group as well as team dynamics (Hirst et al., 2015) which future research might address.

Following the immediate effects of business failure on the individual entrepreneur, I demonstrated in Chapter 3 how entrepreneurs communicate their failure experience to a fairly broad public audience to cope with their psychological cost and to some degree try to manage the societal pressures associated with business failure. The study presented in this chapter contributes primarily to the narrative literature on entrepreneurial failure (Byrne & Shepherd, 2015; Cardon et al., 2011; Mantere et al., 2013) by providing novel insights into how entrepreneurs construct public failure narratives. In this regard, I could identify five distinct public narratives of entrepreneurial failure based on (1) different levels of emotion and problem-focused content, (2) focus on individual versus collective responsibility, (3) varying temporal orientations, and (4) attributions of the causes for failure to internal and external factors. Overall, these findings contribute to existing literatures in multiple ways.

First, the results presented extend previous research on catharsis and hubris narratives in the context of business failure (Hayward et al., 2006; Mantere et al., 2013) by showing the many forms they take when entrepreneurs communicate business failure to a fairly broad public audience. Thus, three of the five narratives presented are significantly associated with internal attributions of failure, whereas the remaining two do not demonstrate a clear tendency toward either type of attribution. These findings support Mantere et al. (2013) who identified two distinct narrative types used predominantly by entrepreneurs (catharsis and hubris) that attribute failure to internal causes, and thus do not conform to the general assumption of a self-serving tendency as suggested by attribution theory (Heider, 1958; Weiner, 1985; Rogoff et al., 2004). Moreover, Mantere et al. (2013) identified two narratives (Fate and Nemesis) used by entrepreneurs who attribute failure to external causes. As highlighted in Chapter 3, my analysis did not reveal a single narrative where external attributions dominate. A possible explanation could be that public narratives that justify failure by blaming other actors or external events construct an unfavorable image of the entrepreneur because such narratives would communicate a denial of responsibility, which is against the common public understanding that entrepreneurs play a role in business failures (Cardon et al., 2011).

Second, the results presented in Chapter 3 contribute to the management literature on entrepreneurial storytelling (Garud et al., 2014; Lounsbury & Glynn, 2001) by explaining how written public narratives effectively employ attributions of stories that provide strategic means for crafting distinct, yet legitimate, narrative impressions of past, present, and future behavior. Specifically, the findings extend our knowledge of two particular narrative types of entrepreneurial failure identified by Mantere et al. (2013): catharsis and hubris. Chapter 3 identified a public narrative that provides novel insight into the competing yet complementary nature of these two narratives. In addition, I was able to reveal the role of the time reference and of emotion and problem-focused patterns (Byrne & Shepherd, 2015) in the construction of different forms of public catharsis and hubris narratives. I am confident that the identification of public failure narratives advances our understanding of how entrepreneurs create public stories about failure and themselves (Garud et al., 2014; Lounsbury & Glynn, 2001; Martens et al., 2007).

Finally, I believe that developing our understanding of public failure impressions adds to the knowledge of how entrepreneurs manage the social stigma of failure (Shepherd & Haynie, 2011; Shepherd & Patzelt, 2015; Singh et al., 2015). In this regard, the thesis provides an understanding

on how public narratives represent not only a means for sensemaking (Byrne & Shepherd, 2015; Mantere et al., 2013) but also a vehicle for managing public impressions in a way that may act against potential stigmatization by the public (Cardon et al., 2011; Singh et al., 2015). The study presented in Chapter 3 thus extends Shepherd and Haynie's (2011) argument that entrepreneurs adopt a negative self-view under certain conditions. One such context, so the authors state, is when there is just a limited audience to communicate failure to. The results presented suggest that adopting a negative self-view (catharsis) can also be relevant in a broader public setting.

Chapter 4 pertained to the long-term effects of business failure on failed entrepreneurs. By exploring the relationship between their sensemaking efforts and future decision making and behavior, I could demonstrate the importance of the perceived causes of business failure to the subsequent decision making and behavior of novice, serial, and portfolio entrepreneurs in terms of abandoning entrepreneurial activity after business failure. While across all entrepreneurs perceiving the cause of business failure to be permanent yet controllable apparently leads them to decide against starting another venture, differences in the decision to seek a different career path are evident, and depend on whether the entrepreneurs assess the cause of business failure to be internal or external, controllable or uncontrollable, and permanent or temporary.

These findings contribute to the literature distinguishing habitual entrepreneurs from their novice counterparts (Westhead & Wright, 1998; Westhead et al., 2005) as there are commonalities and differences between the different types of entrepreneurs with regard to the configurations leading to abandoning entrepreneurial activity after a business failure. Apparently, there are perceived causes for failure that lead entrepreneurs to decide against starting another venture after business failure, irrespective of their previous entrepreneurial experience. This finding may indicate the severity of the symptoms associated with certain causes and invites a more nuanced examination of business failure (Cardon et al., 2011; Mantere et al., 2013). Additionally, I found differences across entrepreneurs' decisions to start up a subsequent venture depending on whether they had significant entrepreneurial experience or not. This finding may indicate that entrepreneurs actually learn to make sense of their previous entrepreneurial experience (Politis, 2008; Politis & Gabrielsson, 2009).

Previous research has widely acknowledged that attributing the cause of an outcome provides relevant information about where to undertake corrective behavior (if necessary or possible) thus representing the starting point for subsequent decisions (Gatewood et al., 1995; Shaver & Scott,



1991). I could contribute to this line of research since, according to my analysis, the three attributional dimensions identified by Weiner (1985) may indeed serve as a platform for subsequent decisions, however, only for determining an entrepreneur's decision to abandon entrepreneurship or, in the case of portfolio entrepreneurs, to focus on the ventures they currently operate. Interestingly, I could not find such a relationship for entrepreneurs' decisions to re-enter entrepreneurship. A reasonable explanation for this non-finding could be that re-entry into entrepreneurship may largely depend on contextual factors after business failure, such as the degree of stigmatization (Simmons et al., 2014; Singh et al., 2015), the psychological processing of business failure (Byrne and Shepherd, 2015; Mantere et al., 2013) and ultimately entrepreneurs' distinctive failure recovery processes (Cope, 2011; Shepherd, 2003).

### **Attribution theory**

The three studies presented in this dissertation adopt an attributional perspective (Heider, 1958; Weiner, 1985) and rely on interpersonal and intrapersonal perspectives inherent to attribution theory (Weiner, 2000). While the second and third study built on an intrapersonal perspective, the first study adopted an interpersonal angle, taking into account all three attributional dimensions identified by Weiner (1985), which have already been found to be particularly relevant and critical to related and close phenomena such as trust repair (Tomlinson & Mryer, 2009). Accordingly, I could make a series of contributions to attribution theory in a relevant achievement setting: the specific context of entrepreneurial failure.

In the first study, I investigated the role of attributions in observers' judgment policy when tasked with evaluating failed entrepreneurs. In this regard, traditional attribution theory predicts that presenting failure as uncontrollable might elicit sympathy on the part of observers, ultimately leading to a more positive evaluation (Weiner et al., 1988). Contrary to this notion, I found that in a business failure setting, where observers are neutral and lack personal ties with the actor, entrepreneurs are evaluated more positively when they admit responsibility for the failure event. Apparently, admitting responsibility may create a sense of credibility which may then translate into a more positive evaluation of the failed entrepreneur (Schlenker, 1980; Sutton & Callahan, 1987). This result is particularly interesting as it contributes to more recent suggestions questioning the unconditional application of classic attribution theory within the specific context of entrepreneurial failure (Mantere et al., 2013). Thus, more research is needed to better understand the specific conditions and properties of attribution theory within the context of entrepreneurial failure.

In the second study, I explored the function of attributions within the narratives entrepreneurs construct in response to business failure. Previous research has widely acknowledged that the dominant function of attributions within the context of entrepreneurial failure is causal analysis thus providing cognitive control over the failure event (Byrne & Shepherd, 2015; Cardon et al., 2011; Yamakawa & Cardon, 2015). In addition, scholars have identified other purposes of attribution formation such as maintaining positive self-esteem, self-justification, and protecting emotional wellbeing (e.g., Mantere et al., 2013; Rogoff et al., 2004; Shepherd & Haynie, 2011). By acknowledging attributions are devices to shape not only the view of the self but also the impressions of others, the second study demonstrates how attributions in public failure narratives are used as an effective means for self-presentation in order to construct a legitimate basis for entrepreneurs' future actions.

Moreover, attribution theory generally assumes individuals are prone to a certain self-serving tendency (i.e., taking credit for success while denying responsibility for failure) to protect or enhance their self-esteem (Arkin et al., 1980; Bradley, 1978; Rogoff et al., 2004). This research supports more recent findings questioning the general self-serving tendency of failed entrepreneurs (Mantere et al., 2013; Shepherd & Haynie, 2011). More specifically, in line with these more recent studies, I demonstrated that the general assumption of a generic self-serving tendency among failed entrepreneurs may not be applicable in the context of entrepreneurial failure. On the contrary, business failure may represent a condition where entrepreneurs strategically adopt a negative self-view to create a positive impression about themselves by eliciting sympathy and/or fostering credibility (Shepherd & Haynie, 2011; Sutton & Callahan, 1987).

Finally, in the third study presented in Chapter 4, I contributed to studies relying on the predictive function of attributions to determine future courses of action pursued by individuals (Dweck & Leggett, 1988; Ford, 1985; Gatewood et al., 1995; Shaver & Scott, 1991). In this regard, I found that not all attributional dimensions are equally important with respect to determining entrepreneurs' future activities and career paths after business failure. More specifically, according to the analysis, a combination of certain attributional dimensions regarding a specific cause appears to be sufficient to explain why entrepreneurs abandon entrepreneurial activity or focus on the businesses they currently operate. For example, across all serial and novice entrepreneurs, perceiving the cause of business failure to be permanent yet controllable apparently leads them to decide against starting another venture irrespective of whether the cause originates within or is

external to the entrepreneur. This finding is particularly interesting as it calls for a more nuanced appreciation of the attributional dimensions within the context of entrepreneurial failure (Mantere et al., 2013; Yamakawa & Cardon, 2015; Yamakawa et al., 2015).

### **Final thoughts**

This dissertation has explored a great variety of phenomena in failed entrepreneurs' subsequent lives and hopefully encourages further research in this direction. I strongly believe that despite investigating micro-level processes, this dissertation has valuable macro-level-implications. Specifically, knowledge generated through failure can be useful for many different actors within an economy even when failed entrepreneurs do not decide to remain entrepreneurial (Hoetker & Agarwal, 2007; Knott & Posen, 2005). The negative judgmental reactions by the broad public as well as the associated stigmatization identified in Chapter 2 may hinder knowledge diffusion. In this regard, stigmatization may force entrepreneurs to tell impression management stories instead of providing factual assessments of their previous failure experience (see Chapter 3). Thus, policy makers willing to promote entrepreneurship would be wise to initiate and extend policies and initiatives such as the European Commission's *Failure Aversion Change in Europe* (FACE) project to mitigate these societal barriers inherent within certain cultures such as Germany (FACE, 2015; Kuckertz et al., 2015).

Moreover, as mentioned earlier, failed entrepreneurs have the potential to learn from their failures, eventually resulting in an extended knowledge base and greater experience (Cope, 2011; Mueller & Shepherd, 2014). Moreover, as business failure can result in improved new venture performance depending on entrepreneurs' individual processing of their past experience (Yamakawa et al., 2015), entrepreneurs should build on their enhanced competences and previous entrepreneurial experience by starting up another venture. A better understanding of what affects entrepreneurs' decisions to remain entrepreneurial requires a more profound understanding of the determinants of entrepreneurs' sensemaking after a business failure, and how this cognitive process shapes subsequent behavior in the form of reentering entrepreneurship or not. This dissertation provided some preliminary evidence on how entrepreneurial failure affects failed entrepreneurs' sensemaking efforts that ultimately determine their subsequent decisions and behavior. Clearly, research on entrepreneurial failure has only revealed the tip of the iceberg but I am confident that this dissertation has further enhanced our understanding of how business failure affects entrepreneurs on the cognitive, emotional, and behavioral levels in their subsequent lives.

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### Co-author declaration for article "Constructing Public Narratives of Entrepreneurial Failure"

As the co-author of "Constructing Public Narratives of Entrepreneurial Failure", currently under review for the Journal of Management Studies, I herewith confirm Christoph Mandl's individual contribution to the article to have consisted of:

- Major contribution towards the formulation in the concept phase of the basic scientific problem on the basis of theoretical questions which require clarification, including a summary of the general questions which it is assumed will be answerable via analyses.
- Major contribution towards planning of experiments/analyses and formulation of investigative methodology in such a way that the questions asked can reasonably be expected to be answered, including choice of method and independent methodological development.
- Substantial involvement regarding the analysis
- Substantial contribution towards the presentation, interpretation and discussion of the results obtained in article form.

I can therefore testify, that Christoph Mandl has made major contributions to the success of the paper and that this study would not have been conducted without him.

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As the co-authors of "Do you Plead Guilty? Exploring Entrepreneurs' Sensemaking-Behavior Link after Business Failure", published in the Journal of Business Venturing Insights, Vol. 5, pp 9-13, we herewith confirm Christoph Mandl's individual contribution to the article to have consisted of:

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