Ideal Failure Narrative Types - How Entrepreneurs Explain Their Business Failure

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In this study, we explore how entrepreneurs cope with the challenging socio-psychological pressures and potential public stigma arising from business failure by empirically identifying ideal failure narrative types using latent semantic analysis. By analyzing shutdown notices obtained from the homepage of discontinued ventures, we find that on the most abstract level, failure narratives can be divided into predominantly rational and emotional oriented ideal failure narrative types. On a more detailed level, we identified specific impression management strategies, i.e. failure narrative types trying to convey a specific view on the failed entrepreneur.

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Introduction

Coping and making sense of one's failure experience is an important challenge for entrepreneurs (Shepherd 2003; Shepherd and Cardon 2009; Byrne and Shepherd 2015), a challenge that can to some degree be managed through the use of failure narratives (Brown, Stacey, and Nandhakumar 2008) which are shaped by distinct emotional and cognitive needs as well as social expectations. As highlighted by Mantere et al. (2013), narratives play a vital role in the failure context as they are important building blocks in the grief recovery process and the cognitive process of self-justification. In this regard, narratives influence not only how individuals view themselves, but also how others view them. Thus, the narratives that entrepreneurs construct when it comes to their failure experience enable them to effectively manage their external image (Martens, Jennings, and Jennings 2007) as well as the individual perceptions of themselves (Ibarra and Barbulescu 2010).

While prior investigations of failure narratives within the field of entrepreneurship have indicated their importance for psychological processing (Mantere et al. 2013), sense making (Byrne and Shepherd 2015), and ultimately "bouncing back" from failure (Wolfe and Shepherd 2013), a relative paucity of research remains on precisely the question of how entrepreneurs construct failure narrative accounts to cope with the challenging socio-psychological pressures (Shepherd 2003; Shepherd and Cardon 2009) and potential public stigma (Cardon, Stevens, and Potter 2011; Singh, Corner, and Pavlovich 2014) arising from business failure.

Data and Method

We attempt to address this issue by using the quantitative text-mining technique latent semantic analysis (LSA) (Landauer, Foltz, and Laham, 1998; Sidorova et al. 2008) to derive ideal failure narrative types empirically from shutdown messages of discontinued companies. We choose LSA as this approach is particularly useful to detect the inherent meaning of documents. Thus, the underlying idea behind LSA is that word usage patterns, that is the contexts in which words occur or do not occur, can be used to establish common factors that represent underlying concepts.

This sample was constructed relying on the Crunchbase Database provided by TechCrunch. The database contains, among other categories, a list of more than 2,600 profiles of technology-based companies which have discontinued service. The profiles contain details about the founding team (for example name, team size) as well as company characteristics (for example location, date of establishment). All listed companies were systematically screened for shutdown messages in English language on their respective homepage at the time of their shutdown event using Internet Archive's Wayback Machine (Hackett, Parmento, and Zeng 2004). This analytical process yielded 214 shutdown messages.

As a next step, we obtained the lead-founders' LinkedIn profiles for additional information and to validate information obtained from the Crunchbase profiles (for example if the lead founder was in the company during the whole lifespan of its company). In this regard, 15 shutdown messages had to be excluded due to founder replacement by a professional manager. Besides, we excluded 18 shutdown notices from our sample since the companies were previously acquired before they were shut down by a larger competitor. In sum, this procedure resulted in 180 usable shutdown messages of discontinued entrepreneurial ventures which we finally included in our sample.

The companies in our sample were primarily headquartered in English speaking countries (71% United States, 8% United Kingdom, 3% Canada, 3% Australia, 15% rest of the world) and share a common cultural background. On average, the shutdown notices were 248 words long (standard deviation = 223), ranging from April 2004 to March 2014. Our longitudinal data covers a 10-year time-span hereby avoiding the risk of cycles and momentary causes for business failures (for example economic crisis).

Typically, LSA is comprised of multiple steps (Sidorova et al. 2008). First, the shutdown notices were transformed into a term-document matrix that consists of rows representing words and columns that represent documents whereas the cells of the matrix contain the term frequency of a given word in a particular document. Second, documents and words underwent a series of pre-processing steps. Most notably, we used computer-aided text analysis Software LIWC (Pennebaker, Francis, and Booth 2001) to form 35 conceptual categories of words which are relevant to our question and ultimately reflect the psychological and linguistic inventory evident in the shutdown notices. Besides the predefined psychological and linguistic dictionaries of LIWC, we used established word lists (for example long-term orientation (Brigham et al. 2014), organizational psychological capital (McKenny, Short, and Payne 2013), entrepreneurial orientation (Short et al. 2009), and

organizational virtue orientation (Payne et al. 2011)) to obtain a comprehensive picture of the content evident within the shutdown notices. Furthermore, we manually coded if a shutdown message contained a direct address and a personal signature at the end. Finally, we conducted a commonly used inverse document frequency transformation, which promotes the occurrence of rare psychological and linguistic concepts in a document and discounts the occurrence of more common concepts.

As a next step, we used singular value decomposition (SVD), a statistical procedure which allows to reduce the dimensionality of the concept-document matrix without losing relevant information by identifying groups of highly correlated concepts (that is psychological and linguistic concepts which co-occur together in documents) and highly correlated documents (that is shutdown notices which contain similar concepts). The result of the SVD is a set of factors (that is ideal failure narrative types) with associated concept loadings and document loadings, which together describe specific patterns of concept usage.

As a final step in our analytical procedure, the extracted psychological concept-usage patterns were interpreted. First, varimax rotation, a standard statistical procedure, was applied to simplify the interpretation and to improve the distinctiveness of the ideal failure narrative types. An identical rotation was then performed with the document loadings matrix to maintain the representation of the documents in the same space. Second, we determined thresholds for the number of psychological and linguistic concepts to be extracted. Thus, for a k-factors solution we extracted the top-1/k documents and concepts (Sidorova et al. 2008) - cross-loadings are however possible. Finally, the ideal failure narrative types were interpreted by co-examining the associated psychological and linguistic concepts and documents. This task was done by independently interpreting and labelling each narrative type while consulting the list of extracted high-loading descriptive concepts and shutdown notices and then comparing the results. Minor disagreements in labelling were resolved through

discussion. Figure 1 provides an overview of the 2-, 3-, 4-, 5- and 7-factor solutions and illustrates how, from level to level, ideal failure narrative types are refined, added, split up and dissolved.

"Insert Figure 1 Here"

Thus, while the 2-factor solution resulted in an abstract distinction between predominantly emotional and rational oriented ideal failure narrative types, the 7-factor solution revealed a set of more fine-grained impression management strategies leading to a certain image of the failed entrepreneur. In the following, we choose to focus on the 4-factor solution to illustrate how we arrived at our labelling decision as it provides a comprehensive picture that is neither too abstract nor too detailed. In Table 1, we summarized the rotated concept loadings for each of the four ideal failure narrative types. Comparing these ideal types revealed major differences regarding their scope and focus.

"Insert Table 1 Here"

"*Everybody's Darling*". The first ideal failure narrative type is signified by written content related to "cognitive processes" which are predominantly employed to create causal explanations and to organize thoughts. Moreover, entrepreneurs applying this impression management strategy evidently try to convey a positive image about themselves as indicated by the positive emotional as well as affective writing style directed to their external environment. Thus, following the taxonomy proposed by Jones and Pittman (1982), this failure narrative type indicates an "ingratiation" self-presentational strategy.

The second ideal failure narrative type, which was labelled "*the depressed*", consists primarily out of "negative emotional" content, and related concepts such as "sadness", "anxiety", and "anger" indicating a severe emotional burden as a result from previous entrepreneurial efforts. Apparently, entrepreneurs adopting this impression management

strategy, seek to be perceived as unfortunate or helpless consequently indicating in parts a "supplication" self-presentational strategy (Jones and Pittman 1982).

"The Steadfast". The third ideal failure narrative type is signified by the absence of negative and positive emotional content. Instead, entrepreneurs adopting this self-presentational strategy use an integrity- and profitability-oriented vocabulary indicating a factual assessment of their failure experience. Moreover, the prominent use of "proactive" and "confident" vocabulary suggests a certain avoidance tendency whereas entrepreneurs are apparently oriented towards new tasks. Besides, as illustrated by the 7-factor solution, this failure narrative type can be further refined into three potential images, entrepreneurs try to convey: "*The Strengthened*", "*the Future-oriented*" and "*the Achiever*".

The fourth ideal failure narrative type "*leaving the stage*" is conceptually close to the "everybody's darling" narrative type in that it is also represented by "cognitive", "social" and "affective" processes. However, unlike their previously mentioned counterparts, this ideal failure narrative type is predominantly concerned with past accomplishments as indicated by the "achievement" content as well as the writing style in past tense thus pointing to a "self-promotion" strategy by the failed entrepreneur (Jones and Pittman 1982). As highlighted by the 5-factor solution, this failure narrative type can be further clarified by splitting off entrepreneurs explicitly trying to make sense out of past events (that is '*The Coping with the Past*').

Discussion

Our findings contribute to the discussion of how entrepreneurs cope with the challenging socio-psychological pressures (Shepherd 2003; Shepherd and Cardon 2009) and potential public stigma (Cardon, Stevens, and Potter 2011) arising from business failure. Thus, entrepreneurs face differing emotional, cognitive and social needs arising from the loss

of their business. This is reflected in a great variety of failure narratives which entrepreneurs construct after business failure. As extensive literature suggests, individuals engage in various forms of impression management in order to influence the images and opinions that others have of them. We provide a more detailed and comprehensive view on this particular topic by identifying common patterns in the form of ideal failure narrative types to further explore how entrepreneurs effectively manage the view on the self after business failure.

First, ideal failure narrative types can be identified on several levels of abstraction. In this study, we empirically derived ideal types ranging from 2 to 7 distinct failure narrative types. While the 2-factor solution resulted in an abstract distinction between predominantly emotional and rational oriented ideal failure narrative types, the 7-factor solution revealed a set of more fine-grained impression management strategies creating a certain image of the failed entrepreneur. Hence, on the most abstract level, failure narratives can be distinguished by two fundamental orientations which may serve two different functions as indicated by our results: Predominantly emotional failure narrative types, that is writing the potentially painful experience and associated frustration off one's chest and primarily rational failure narrative types, that is making sense out of the failure experience by explaining and working through this experience.

Second, despite the fact that entrepreneurial failure is a highly individual experience depending on various contextual factors affecting life after business failure (Ucbasaran et al. 2013), we could identify common patterns in the form of individual impression management strategies, that is ideal failure narrative types trying to convey a specific view on the failed entrepreneur. Comparing these ideal types revealed major differences regarding their scope and focus. Our results are solidly grounded in theory (Jones and Pittman 1982) and provide an overview how on different levels of abstraction, ideal failure narrative types are refined, added, split up and dissolved.

Finally, the identification of ideal failure narratives opens up plenty of avenues for future research. For instance, what are the consequences of coping with failure in one way or the other for the recognition of future opportunities and future entrepreneurial behavior? What ideal failure narrative helps to avoid stigmatization of the failed entrepreneurs and what particular impression management strategies are most effective? As the perception of opportunities is extremely dependent on prior knowledge and experience (Shepherd in press) including entrepreneurial failure, these are important questions that have yet to be answered.

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Figures & Tables

Figure 1

Overview of Ideal Failure Narrative Types

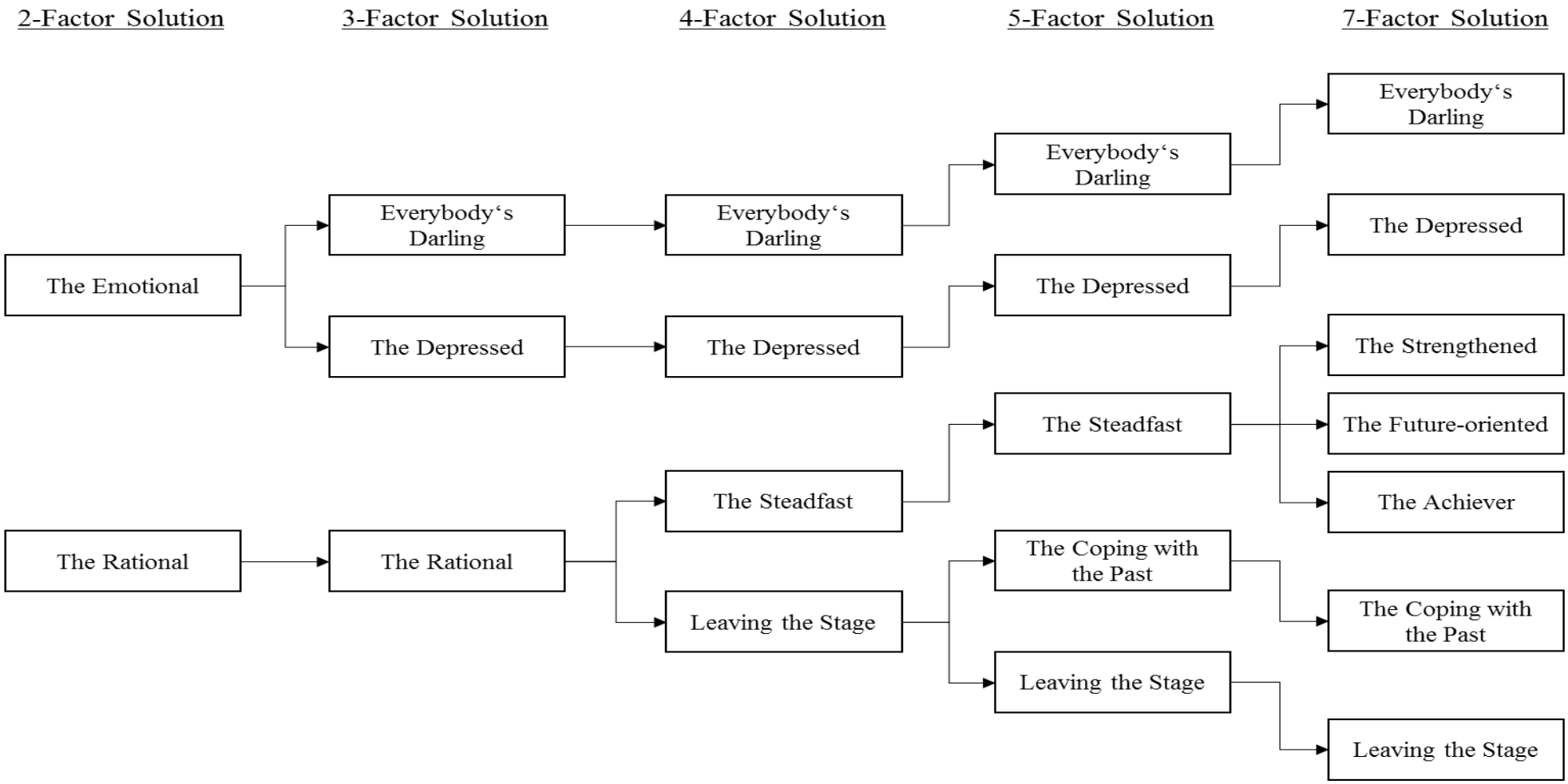
2-Factor Solution
3-Factor Solution
4-Factor Solution
5-Factor Solution
7-Factor Solution
The Emotional
The Rational
Everybody‘s Darling
The Depressed
The Rational
Everybody‘s Darling
The Depressed
The Steadfast
Leaving the Stage
Everybody‘s Darling
The Depressed
The Steadfast
The Coping with the Past
Leaving the Stage
Everybody‘s Darling
The Depressed
The Strengthened
The Future-oriented
The Achiever
The Coping with the Past
Leaving the Stage

Table 1

Rotated Factor Loadings

"Everybody's Darling"		"The Depressed"		"The Steadfast"		"Leaving the Stage"	
Concept	**Rotated factor loading**	**Concept**	**Rotated factor loading**	**Concept**	**Rotated factor loading**	**Concept**	**Rotated factor loading**
Cognitive processes	21.56	Negative emotion	2.16	Proactiveness	1.90	Cognitive processes	9.21
Social processes	8.03	Sadness	1.31	Profitability	1.31	Past tense	6.45
Present tense	7.93	Anxiety	1.11	Organizational Confidence	1.29	Social processes	5.52
Affective content	3.69	Autonomy	1.08	Integrity	1.24	Achievement	2.95
Positive emotion	2.12	Anger	0.98	Cognitive processes	-1.25	Affective content	2.31
Personal signature	-2.11	Conscientiousness	0.96	Present tense	-2.27	Futurity	-1.65
Perseverance	-2.22	Cognitive processes	-1.47	Social processes	-3.65	Long-term focus	-1.81
Personal address	-2.22	Present tense	-1.59	Positive emotion	-6.55	Future tense	-2.76
Risk-taking	-2.23	Social processes	-12.58	Affective content	-7.66	Present tense	-3.06