Exploring the Societal Perception of Business Failure

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Building on attribution theory and stigma literature, we seek to explore how attributions constructed by failed entrepreneurs affect the degree of stigmatization assigned by the broad public. Using conjoint analysis, we find that controllability indicates signs of 'blameworthiness'. Thus, individuals may start stigmatizing entrepreneurs when they perceive business failure as avoidable. Moreover, based on our results, we propose that, regardless of the extent of failure, individuals do not prefer, when entrepreneurs construct internal, controllable, specific and stable attributions after business failure potentially leading to increased social costs (Ucbasaran et al. 2013) arising from subsequent stigmatization. Finally, we find that judgements made by external observers do vary depending on the extent of business failure.

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Building on attribution theory and stigma literature, we seek to explore how attributions constructed by failed entrepreneurs affect the degree of stigmatization assigned by the broad public. Using conjoint analysis, we find that controllability indicates signs of 'blameworthiness'. Thus, individuals may start stigmatizing entrepreneurs when they perceive business failure as avoidable. Moreover, based on our results, we propose that, regardless of the extent of failure, individuals do not prefer, when entrepreneurs construct internal, controllable, specific and stable attributions after business failure potentially leading to increased social costs (Ucbasaran et al. 2013) arising from subsequent stigmatization. Finally, we find that judgements made by external observers do vary depending on the extent of business failure.

Introduction

The societal perception of entrepreneurial failure is an important aspect for entrepreneurship given the potentially negative impact not only on the entrepreneurs experiencing business failure but also on individuals associated with the failed organization and its stakeholders, and ultimately society as a whole. Entrepreneurial failure may evoke a stigmatization process, eventually starting even before the actual failure event (Singh, Corner, and Pavlovich 2015), whereby individuals assign blame and discredit the person's professional identity. As a result, ex-entrepreneurs may face severe psychological, financial as well as social costs arising from the stigma of entrepreneurial failure (Ucbasaran et al. 2013). Specifically, failed entrepreneurs can lose their private as well as professional relationships and may face negative discrimination with regard to future employment opportunities. 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). Entrepreneurial experience, be it negative or positive, goes along with progress on the experience curve and thus allows other entrepreneurial projects to be managed more successfully (Politis 2005).

Several studies indicated that stigma of entrepreneurial failure can vary from one national culture to another (Begley and Tan 2001; Cave, Eccles, and Rundle 2001) whereas stigmatization may hinder entrepreneurial activity (Damaraju, Barney, and Dess 2010; Vaillant and Lafuente 2007). However, even within a common cultural context, entrepreneurs may experience a varying degree of stigmatization as a consequence of their business failure (Cardon, Stevens, and Potter 2011).

Until recently, scholars have primarily paid attention to the socio-cultural aspects associated with stigma due to entrepreneurial failure in general (Begley and Tan 2001) or bankruptcy more specifically (Efrat 2006). However, research on the micro processes underlying these societal level relationships is scarce (Singh, Corner, and Pavlovich 2015). We seek to extend these lines of research by contributing to the fundamental question of how failure attributions constructed by entrepreneurs affect the degree of stigmatization assigned by the broad public. More specifically: Do stigmatization judgements of independent observers differ when entrepreneurs attribute failure in terms of locus of causality, controllability, globality and stability?

Data and Method

To explore how failure attributions affect the degree of stigmatization assigned by individuals, we chose conjoint analysis because it has been used in multiple judgment and decision-making studies not only in the entrepreneurship context (Patzelt and Shepherd 2008; Shepherd, Patzelt, and Baron 2013; Behrens and Patzelt 2015) but throughout a variety of disciplines as well (Carroll and Green 1995; Poortinga et al. 2003). Our sampling was

conducted with special regards to socio-cultural aspects. Hence, we decided on Germany as a research context as fear of failure is an important characteristic for German culture (GEM 2013). To obtain a fairly balanced sample in terms of age, gender and local distribution, we relied on an internet panel provider resulting in a final sample of 185 usable conjoint experiments which we included for further analysis.

The respondents in our final sample are approach representativeness of the German population in terms of age, gender and place of residence within Germany. Thus, participants' average age was 46.3 years (standard deviation = 11.89), and 51.4 percent of the sample consisted of men. Further, 56.2 percent were employed, 15.1 percent had retired, 9.2 percent were self-employed, 6.5 percent were students, 5.4 percent were unemployed, 4.3 percent were employed in the public sector and 3.2 percent were housewives/-men. When it comes to education, 62.7 percent absolved an apprenticeship or held a comparable degree, 32.4 percent graduated at least from college, and 4.9 percent were early school leavers.

In a conjoint task, respondents make assessments of specific profiles, which are combinations of theoretically derived attributes that represent the research variables (Priem and Harrison 1994). To construct the profiles and determine the attributes, we relied on attribution theory (Heider 1958; Jones and Davis 1965; Kelley 1973; Ross 1977; Hewstone 1989; Weiner 1985) which specifically deals with individuals' explanations of success and failure and the adjunct psychological and behavioral consequences. In total, we determined four important attributes when entrepreneurs explain their failure experience – locus of causality, controllability, globality and stability.

Each attribute was comprised of two possible levels, therefore a fully crossed factorial design would yield 2^4 = 16 profiles with different combinations of attribute levels. Since all profiles in metric conjoint studies are replicated to test for respondents' reliability, a final

experiment would consist of 2 × 16 = 32 profiles for each participant to assess, which is a time-consuming task. In order to keep the task manageable for participants, we applied an orthogonal factorial experimental design (Hahn and Shapiro 1966) to reduce the number of unique attribute combinations from 16 to 8. This procedure resulted in 16 fully replicated profiles for each participant to evaluate. Additionally, we included a practice profile, which was not included for further analysis to familiarize participants with the task resulting in a total of 17 profiles. Our final sample of 185 individuals had a mean test–retest correlation of 0.9.

We randomly assigned both the order of the profiles and the order of attributes in two ways each. Moreover, we manipulated the judgement situation in terms of extent of failure (detailed below) resulting in eight versions of the experiment, whereas participants were randomly assigned to one of the eight versions. To test for possible order effects, we compared the mean score across the eight different versions of our experiment. Only for one score we discovered a significant difference ($p < 0.1$) between the change of the attribute order and the change of the profile order indicating no substantial order effects.

In the conjoint experiment, participants are first provided with a description of the judgement situation to provide a common understanding. Thus, we first asked the participants to carefully read a short description of a hypothetical failure scenario which we manipulated only in terms of extent of failure. The first scenario description informed the participants, that the founder had to declare bankruptcy. The second scenario description detailed that the company performance was below the entrepreneur's expectation whereas the founder has decided to orderly shutdown the business and exit the market. Respondents were assigned randomly to only one of the two scenarios.

Besides, we informed the participants, in both scenarios that the entrepreneur had substantial experience and expertise within the domain of operation. To ensure that participants make objective judgments, we further instructed the participants that they have no personal or professional relationship to the failed entrepreneur and do not know her. Moreover, we asked the participants to assume that the founder was fully and the only one in charge for the operations. Finally, we instructed the participants to carefully judge each of the profiles, that is statements in terms of how much they can sympathize with the failed entrepreneur.

The dependent variable in our study is the panelists' assessment of the degree they sympathize with a particular statement provided by the failed entrepreneur in response to one of the failure scenarios on a seven-point Likert-type scale anchored by the end points "not at all" and "very much".

The profiles in our conjoint experiment consist of four attributes – locus of causality, controllability, globality and stability. Consistent with previous studies (Shepherd 1999), we describe each attribute by two levels.

Locus of causality. The locus dimension refers to the perceived cause of an outcome and is described by two levels: *Internal*, that is whether business failure is attributed to reasons internal (for example skills and intelligence) to the individual experiencing the event ('*It was my fault*') and *external*, that is business failure is attributed to reasons (for example competition and economic conditions) beyond their control ('*It was related to external circumstances*').

Controllability. The controllability dimension relates to the extent to which an observer perceives the cause of an outcome to be under someone's volition (Weiner 1985)

and consists of the following two levels: Factors such as effort are typically viewed as *controllable* (‘*I could have avoided it*’) whereas factors such as luck are generally perceived to be *uncontrollable* (‘*I could not have avoided it*’)

Stability. 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 *instable* (‘*It was a one-time thing*’).

Globality. Our final attributional dimension relates to whether the cause refers to just one situation or transfers to many situations herby indicating the severity of symptoms. The globality dimension was determined by the following two levels: *Global* (‘*others have failed as well*’) and specific (‘*I’m the only one*’).

Results

“Insert Table 1 Here”

Table 1 as well as Figure 1 and 2 reveals that for the bankruptcy sample, controllability is the most important dimension when judging how entrepreneurs explain their failure experience followed in decreasing order by locus of causality, stability and globality. It also shows that 62.3 percent of respondents do not sympathize with failed entrepreneurs, when they claim failure was avoidable. However, no strong preference emerges for internal locus of causality (43.4 percent), as well as for a perceived stable (39.2 percent) and specific (39.2 percent) causes. In sum, individuals do not prefer, when entrepreneurs construct internal, controllable, specific and stable attributions after business failure.

“Insert Figure 1, 2 Here”

For the orderly shutdown sample the picture is slightly different. However, controllability remains the most important dimension followed in decreasing order by

stability, locus of causality, and globality. As in the bankruptcy sample, individuals do not prefer, when entrepreneurs render their business failure controllable (69.3 percent). However, no strong preference emerges for internal locus of causality (44.3 percent), as well as for a perceived stable (48.1 percent) and specific (44.3 percent) cause. In sum, as in the bankruptcy sample, individuals do not prefer, when entrepreneurs attribute their business failure to internal, controllable, specific and stable circumstances.

Discussion of the Theoretical Implications

Building on attribution theory (Heider 1958; Jones and Davis 1965; Kelley 1973; Ross 1977; Hewstone 1989; Weiner 1985) and stigmatization literature (Singh, Corner, and Pavlovich 2015), we explored the societal perception of entrepreneurial failure. Hereby, the primary contribution of this study is in examining the impact of attributions constructed by failed entrepreneurs on the stigma judgement of individuals. While the importance of failure attributions within the context of entrepreneurship (Rogoff, Lee, and Suh 2004; Cardon, Stevens, and Potter 2011; Yamakawa, Peng, and Deeds 2015) has been well established, this study provides some new insights into the mechanisms underlying the relationship between entrepreneurial failure, the way failure is attributed by the entrepreneur and subsequent stigmatization by the broad public.

First, prior applications of attribution theory within the field of entrepreneurship have indicated critical implications for entrepreneurs' recovering, learning, and achieving success upon previous failures (Sitkin 1992; Shepherd 2009; Yamakawa, Peng, and Deeds 2015; Mueller & Shepherd 2014). Moreover, as highlighted by Mantere et al. (2013), attributions evidently play an important role when it comes to the emotional process of grief recovery (Shepherd 2003) and the cognitive process of self-justification. However, research exploring

how external observers perceive business failure is scarce (Cardon, Stevens, and Potter 2011). Based on our results, we propose that, regardless of the extent of failure, individuals do not prefer, when entrepreneurs construct internal, controllable, specific and stable attributions after business failure potentially leading to increased social costs (Ucbasaran et al. 2013) arising from subsequent stigmatization. By contrary, external, uncontrollable, global and instable attributions may spur empathy for the failed entrepreneur eventually leading to a decrease of social costs.

Second, the four attributional dimensions considered in this study are not equally important when it comes to the societal perception of failed entrepreneurs. From the view of external observers, controllability is more important than internalizing or externalizing business failure as well as the perceived stability and globality of the cause. Therefore, our results may support the proposition by Wiesenfeld, Wurthmann, and Hambrick (2008) in that negative judgements of entrepreneurs are primarily based on signs of 'blameworthiness'. Thus, individuals may start stigmatizing entrepreneurs when they perceive business failure as avoidable, interestingly regardless of the extent of failure. Finally, failure literature predominantly concentrates on the locus of causality dimension (Yamakawa, Peng, and Deeds 2015; Harvey et al. 2014), given the importance of controllability, more research is needed to further explore the role of controllable and uncontrollable attributions and their impact on the entrepreneur as well as on the observers.

Third, from a societal perspective, making sense out of business failure as well as the subsequent stigmatization process involves many different actors (Wiesenfeld, Wurthmann, and Hambrick 2008), perhaps most notably the media. In our conjoint experiment, we were able to specifically decompose the societal perception hereby mitigating the influence of external forces. Hereby, our results suggests that judgements by external observers do vary to some degree depending on the extent of business failure. While individuals place an increased

importance on controllability when asked to judge entrepreneurs declaring bankruptcy, independent observers place even greater importance on this particular circumstance when entrepreneurs declare an orderly shutdown. Moreover, our results indicate that the two most important aspects for judging bankruptcy are controllability and locus of causality. In the case of an orderly shutdown, by contrast, observers rather tend to put increased emphasis on the perceived variability or permanence of the cause besides controllability.

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Tables & Figures

Table 1

Results of the Conjoint Analysis

	Bankruptcy	**Distribution of unpreferred levels (%)**	**Orderly shutdown**	**Distribution of unpreferred levels (%)**
Constant	3.425		3.441	
Locus of causality				
Internal	-0.047	43.40	-0.068	44.30
External	0.047	38.68	0.068	32.91
Controllability				
Controllable	-0.330	62.23	-0.261	69.26
Uncontrollable	0.330	19.81	0.261	25.32
Globality				
Global	0.118	30.19	0.040	36.71
Specific	-0.118	44.34	-0.040	39.24
Stability				
Stable	-0.073	48.11	-0.081	39.24
Instable	0,073	30.19	0.081	40.51
Individual relative importance (%)				
Locus of causality	27.94		19.14	
Controllability	29.46		39.97	
Globality	19.01		16.96	
Stability	23.59		23.94	
Group relative importance (%)				
Locus of causality	8.30		15.14	
Controllability	58.09		58.10	
Globality	20.75		8.80	
Stability	12.86		17.96	
N	106		79	

Figure 1

Individual Relative Importance

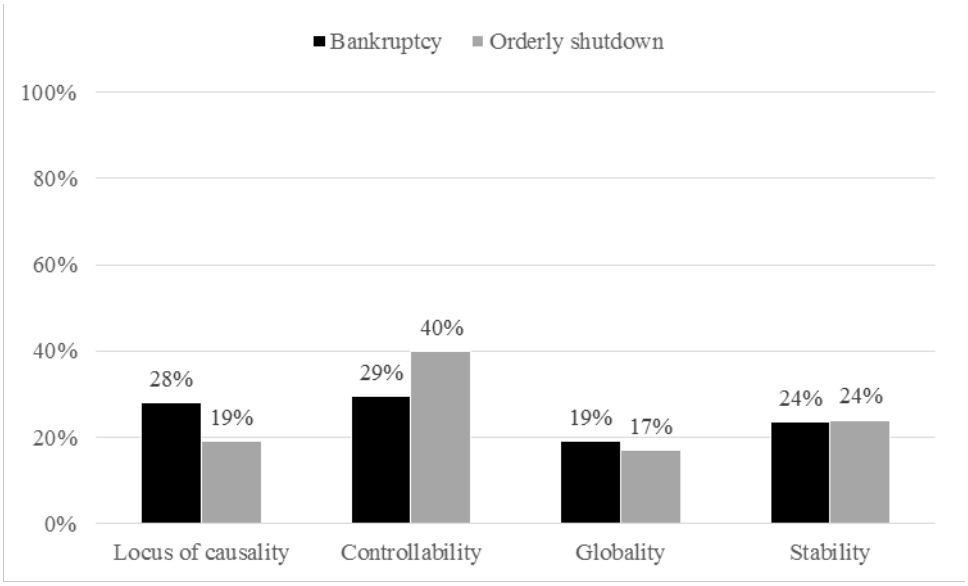
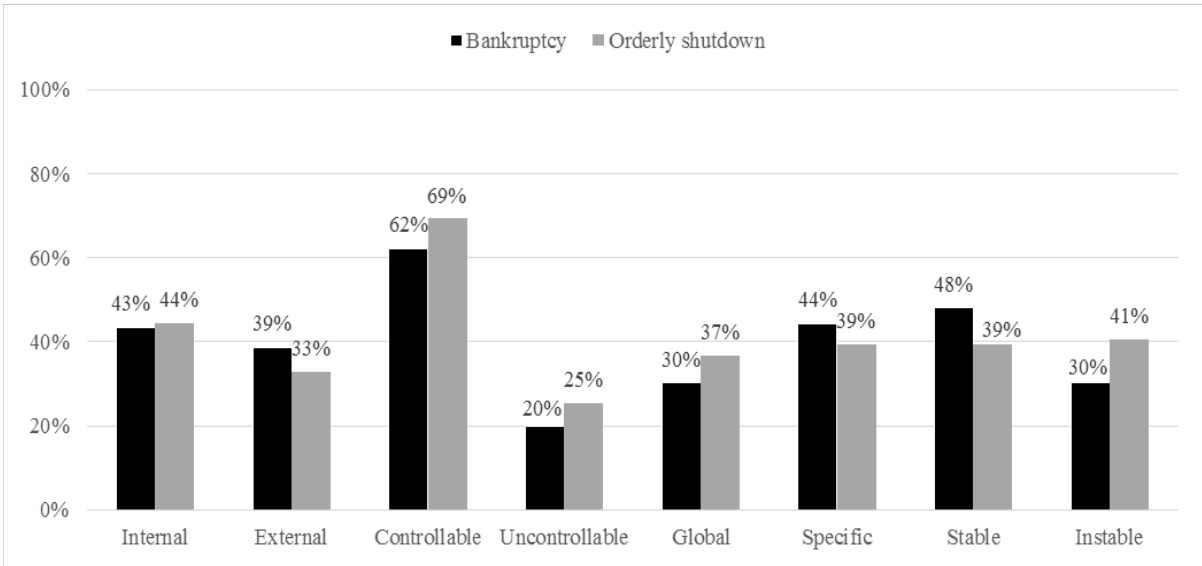


Figure 2

Distribution of Preferred Levels