



Failed, not finished: A narrative approach to understanding venture failure stigmatization



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ABSTRACT

This paper implements a qualitative, narrative approach to investigate entrepreneurs' personal experience of stigma associated with venture failure. Findings draw on the lived experience of 12 entrepreneurs and tell a collective story of how stigma affects entrepreneurs, shapes their actions, and engenders outcomes for them and their ventures. The story covers three episodes of entrepreneurs anticipating, meeting, and then transforming venture failure. Overall the paper shifts the focus of stigma research from the socio-cultural perspective pervading research to date, to micro-level processes underlying socio-cultural trends. Findings offer unexpected insights into failure stigmatization. First, findings suggest stigmatization is best viewed as a process that unfolds over time rather than a label. Second, this process begins before, not after, failure and contributes to venture demise. Third, there is a positive ending to the collective story in that stigmatization ultimately triggers epiphanies or deep personal insights which transform entrepreneurs' view of failure from a very negative to a positive life experience. This transformation results in entrepreneurs distributing learning from failure to the founding of future ventures, even when ventures are not their own.

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1. Executive summary

The stigma of entrepreneurial failure is of increasing interest to scholars as well as policy makers. Researchers describe stigma as a potentially painful and traumatic experience for entrepreneurs (Cope, 2011; Shepherd, 2003) that may deter subsequent venture start-ups (Politis and Gabrielsson, 2009). This concern is evident in the European Commission's "Second Chance" policy that tries to reduce stigma's negative effects for failed entrepreneurs (European Commission Enterprise and Industry Group, 2011). Cope and others worry that the learning from entrepreneurial failure is lost if stigmatized entrepreneurs chose to avoid founding another business in the future (Cope, 2011; Cope and Watts, 2000). Unfortunately, we know little about stigmatization from the point of view of the individual entrepreneur because existing empirical research focuses at the socio-economic level.

Existing research reveals societal level stigma in specific countries, showing its relationship to outcomes such as interest in entrepreneurship (Begley and Tan, 2001) and entrepreneurial risk taking (Damaraju et al., 2001). However, less is known about the microprocesses underlying these societal level relationships because there is limited research on how stigmatization affects individual entrepreneurs' actions, behaviors, and decisions during and after failure.

In this manuscript, we empirically explore the stigma of entrepreneurial failure at the individual level. We seek to understand failure stigmatization from the perspective of entrepreneurs who have experienced it and illuminate how stigma affects their actions and decisions. We address the research question "How does stigmatization affect entrepreneurs and shape their actions as ventures

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fail?” We implement a qualitative, narrative approach to examine the question, collecting and analyzing in-depth interview data from 12 entrepreneurs whose first venture failed.

Our results provide a collective story of how participants experienced venture failure in three episodes: anticipating failure, meeting failure, and transforming failure. Findings show entrepreneurs experiencing different stigmas in the first two episodes of the collective story and illustrate how stigma affected their actions, behaviors, and decisions. Surprisingly, entrepreneurs experience stigma *before* their ventures failed, in the anticipating failure episode. Pre-failure stigma affects entrepreneurs' behavior and contributes to the demise of ventures. Entrepreneurs also experience epiphanies after the meeting failure episode. These were sudden, deep insights into how they had contributed to their firms failure through ego-based thinking and behavior. Epiphanies transformed entrepreneurs' view of failure from a very negative to a positive life experience inspiring entrepreneurs to distribute the learning from failure to the founding of future ventures, even when ventures were not their own. This positive ending to the collective story is also an unexpected finding from the research.

In conclusion, we extend research on the stigma of venture failure to the level of the individual entrepreneur and reveal how stigma shapes entrepreneurs' actions, behaviors, and decisions. Our findings suggest that, at the individual level, stigmatization is best viewed as a process that unfolds over time rather than a label. Fig. 2 depicts this process and provides a framework for future research that may take this process perspective.

2. Introduction

Scholars increasingly recognize entrepreneurial failure as an important phenomenon given its implications for entrepreneurs and their role in job and wealth creation. Failure is pervasive, unavoidable (Cope et al., 2004; McGrath, 1999) and a potentially painful and traumatic experience for entrepreneurs (Cope, 2011; Shepherd, 2003; Ucbasaran et al., 2013). This trauma is reflected in the notion of stigma (defined below) associated with venture failure (Cardon et al., 2011; Politis and Gabrielsson, 2009). Stigma can trigger negative media coverage and prompt criticism of unsuccessful entrepreneurs (Cardon et al., 2011) which may deter subsequent venture start-ups (Kirkwood, 2007; Politis and Gabrielsson, 2009). Fewer start-ups have implications for economic progress (McKeon et al., 2004; Warren, 2004) and, we contend, interfere with the distribution of learning from failure that Cope (2011) and others have identified (Cope and Watts, 2000; Singh et al., 2007). Stigma also has captured the attention of policy makers giving rise to, for example, the European Commission's “Second Chance” policy that attempts to reduce its negative effects (European Commission Enterprise and Industry Group, 2011).

To date, research predominantly examines stigma due to entrepreneurial failure at the societal level. Empirical findings reveal socio-cultural stigma in specific countries and show its relationship to outcomes such as interest in entrepreneurship (Begley and Tan, 2001) and entrepreneurial risk taking (Damaraju et al., 2001). Taken collectively, this quantitative research reveals generalizable relationships characteristic of the wider social context within which failed entrepreneurs make decisions about future entrepreneurial endeavors. However, we know little about the micro-level mechanisms and processes underlying these societal level relationships. Researchers have yet to explore how social stigmatization affects individual entrepreneurs' actions, behaviors, and decisions during and after venture failure. Moreover, self-stigmatization may shape failing entrepreneurs' actions, in addition to social stigmatization, since venture founders intertwine their identities with venture outcomes (Cardon et al., 2005) and see their businesses as extensions of themselves (Shepherd et al., 2009).

The purpose of this paper is to empirically explore the stigma of entrepreneurial failure at the individual level. In particular, we seek to understand failure stigmatization from the perspective of entrepreneurs who have experienced it and to illuminate how and why stigma affects entrepreneurs and their actions and decisions. We thus address the research question “How does stigmatization affect entrepreneurs and shape their actions as ventures fail?” We implement a qualitative, narrative approach to examine the question. Narrative organizes and gives meaning to narrators' experience of events (Creswell, 2007; Elliot, 2005) and meaning making can be a core driver of the entrepreneurial process (Garud and Giuliani, 2013). Importantly, narrative illuminates mechanisms underlying generalized relationships surfaced through quantitative research (Elliot, 2005). It can show how individual agency coalesces over time to give rise to the macro-level relationships surfaced through quantitative research (Garud and Giuliani, 2013). Narrative also illuminates process and change over time and may reveal epiphanies that potentially alter the fabric of individuals' lives in ways that are unexpected (Denzin, 1989). A narrative approach to entrepreneurship research is on the rise and is particularly good at revealing how entrepreneurs generate and modify their vision of the future (Gartner, 2007). All told, narrative research on failure stigmatization can enhance our understanding of how and why stigma affects entrepreneurs and their subsequent decisions about future start-ups. It can also extend our understanding of the distribution of learning from failure that accompanies these start-ups. In the following sections, we present a background to the study, describe research methods, present findings, and discuss implications for the wider entrepreneurship literature.

3. Background literature

Stigma is defined generally as a mark of disgrace or infamy, a stain on one's reputation. Academically it has been described as something deeply discrediting that reduces the individual bearing the stigma “from a whole and usual person to a tainted, discounted one” (Goffman, 1963, p. 3). More recently, Link and Phelan (2001, p. 377) provided a comprehensive description of stigma as a concept made up of interrelated elements of “labeling, stereotyping, separation, status loss, and discrimination” and indicated that stigma can have a substantive impact on many areas of a person's life such as income, housing, and health.

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