Misfortunes or mistakes?
Cultural sensemaking of entrepreneurial failure ☆

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ABSTRACT

This study examines cultural views of venture failure through the lens of sensemaking, which includes attributions of causality. Specifically, we explore failure accounts that are attributed to mistakes made by entrepreneurs, and those attributed to misfortunes outside the control of the entrepreneur. Reports of entrepreneurial failures from 1999 to 2001 were collected from seven major US newspapers, and 389 accounts of failure were analyzed for statements identifying the failure's cause. The data suggest that cultural sensemaking of failure varies by the geographical area where failure occurs. In addition, 331 accounts of the consequences of failure were analyzed which suggest that failure has a large impact on the stigmatization of the entrepreneur and entrepreneurship within the local area, as well as on the individual entrepreneur's view of themselves following failure.

1. Executive summary

Failure is an important phenomenon in entrepreneurship, including both its causes and consequences for individuals, organizations, and society. Several studies have examined factors that enhance the success and mitigate the failure potential of new ventures, but few have explored how entrepreneurs or communities make sense of venture failures that do occur, and the implications of such sensemaking for continued entrepreneurship. A community's perspective concerning venture failure may have implications for the level of entrepreneurial activity that occurs within that community, influencing the acceptability of entrepreneurship as a viable career path, legitimacy of working within these ventures as employees, personal and venture capital available to nascent entrepreneurs, and the existence of support networks for emerging ventures.

The community perspective evolves through repeated exposure to business successes as well as failures, and to how the credit or blame for those outcomes is allocated or attributed. We specifically examined accounts of failure experiences looking for whether the blame for them was placed on the entrepreneurs themselves and *mistakes* they had made, or placed upon factors outside the control of those entrepreneurs, *misfortunes* deriving from their environments. In a search of articles from six regional (Atlanta, Austin, Chicago, New York, San Francisco, and Washington, D.C.) and one national newspaper between 1999 and 2001, we identified 389 accounts of small business failures. Using discourse analysis, each account was examined to identify whether the cause of failure was attributed to a mistake or to misfortune, and then coded for the specific cause of failure mentioned within these two broad categories. When mentioned in these accounts, we also coded the stated impact of the failure, to better

understand how cultural sensemaking of venture failures affects factors that ultimately increase or decrease the level of entrepreneurial activity in a community.

Our results indicated that overall failures were blamed fairly evenly on mistakes and misfortunes. However, we found regional differences that suggest that during the time of our study, Atlanta, Austin, and San Francisco viewed failures as more misfortune-driven, while Chicago, New York, and Washington, D.C. tended to attribute failures to entrepreneurial mistakes. In addition, the predominant consequence of failure was stigmatization of the entrepreneur and entrepreneurship more broadly, as well as a negative influence on the entrepreneur's sense of personal failure and willingness to start another business again in the future. Our results suggest that regionalism is an important factor in the allocation of blame for failure events in entrepreneurship, and that cultural sensemaking about failure should be explicitly considered in our practical and scholarly work.

2. Introduction

> "Each subculture in American life—whether gender or region, profession or class—seems to have its own code of failure: what kinds are acceptable, how to treat those who fail, rules that protect the status of the subculture and its members. Where Silicon Valley exalts failure, Wall Street punishes it ruthlessly." –Michael Lewis, New York Times, August 1999 (Waldman, 1999).

Failure is an important phenomenon in entrepreneurship, including both its causes and consequences for individuals, organizations, and society (McGrath, 1999; McGrath and Cardon, 1997; Shane, 2001). Several studies have examined factors leading to the failure or success of new ventures (Shane, 2001), but few have explored the broader culture in which those failures take place (Cardon and McGrath, 1999) and its implications for continued entrepreneurship.

One important avenue of exploration concerns how society at large views such venture failure. The societal perception of failure has many implications for perceptions of risk and the level of entrepreneurial activity within that society (Baumol, 1993). Such cultural sensemaking may also impact the attributions individual entrepreneurs make for setbacks they experience, and how they change their behaviors accordingly in decisions to continue to develop the business despite hardship or to cut their losses and close the business immediately (Cardon and McGrath, 1999; Shepherd et al., 2009). Analyzing causes of failure can enhance learning from such failures (Singh et al., 2007) and thus potentially help current and future entrepreneurs help avoid catastrophic failures. Venture failure has many serious consequences, including loss of financial and social capital, loss of requisite skills in the population of entrepreneurs such as self-efficacy and resilience (Wood and Bandura, 1989), the stigmatization and devaluation of key actors in failed concerns (Weisenfeld et al., 2008), and even loss of the productive potential of economies (McGrath, 1999). Thus while failure is often viewed as something to be avoided, when it occurs it can also provide a powerful learning opportunity for those experiencing it (Shepherd, 2003) as well as those viewing it from outside the firm (McGrath, 1999).

More broadly, cultural perceptions of venture failure may profoundly influence the allocation of resources towards risky ventures. For example, if failure such as business loss or personal bankruptcy is deemed acceptable or "normal," then individuals may find easier access to capital and may be more inclined to pursue ventures even with unproven or ill-prepared business models. Conversely, if failure is viewed as intolerable, and the associated stigma carries over into personal and social stigmas, potential entrepreneurs would be less likely to pursue entrepreneurial opportunities or be more conscientious in doing so (e.g. in preparing well-developed business plans).

Views on failure in the U.S. range greatly, from the general tolerance of failure in Silicon Valley to the abhorrence of it on more conservative Wall Street. Despite increasing conversation around failure in both the popular (e.g., Huber, 1998; Ingebretsen, 1993) and academic press (e.g., McGrath, 1999; Shepherd, 2003; Zacharakis et al., 1999), empirical study of this phenomenon is scarce. This is perhaps driven, at least in part, by unclear definitions of what failure is, and differing views on when failure is productive and when it is destructive (McGrath, 1999). Moreover, most studies fail to differentiate between failure of entrepreneurs and failure of their firms. In this study, we focus on business or venture, not individual, failures.

We examine venture failure at the level of regions, examining how different regional cultures make sense of failure collectively. Specifically, we look at the collective sensemaking for failures as depicted in public discourse, through popular media outlets within specific geographic areas of the US. Through sensemaking processes, including attributions, meaning is constructed and reconstructed in an attempt to develop a framework for understanding the nature of the phenomenon (Gioia and Chittipeddi, 1991), here for understanding the nature of venture failure. Through this examination of how US subcultures make sense of actual failure events, we strive to better understand the unique climates within which entrepreneurship takes place.

This study seeks to make several contributions to the literature. First, although some scholars study culture associated with entire nations (Hofstede, 2001), others note that even within a country, such as the US, there are very different subcultures (Lee, 1995; Lieske, 1993). In entrepreneurship research focused on sub-cultures of the US, often the focus is on major metropolitan areas or regional clusters of activity (Saxenian, 1994). However, such research has not focused on perceptions of business failures within those cultures, or how such perceptions impact entrepreneurial activity. Given that failure is a prominent and perhaps necessary aspect of entrepreneurship (McGrath, 1999), it appears relevant to understand variance in how failure is viewed within various sub-cultures of the US.

Secondly, we aim to contribute to the literature on failure by examining it from a different level of analysis than what is typically used. Failure in entrepreneurship is most often explored at the individual or firm-level of analysis. While this approach is important, we have not yet sought to understand failure at a community level of analysis. In particular, while we know that there is individual variation in one's tolerance for repeated failure experiences, such as that some entrepreneurs are more resilient and