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Do you plead guilty? Exploring entrepreneurs' sensemaking-behavior link after business failure



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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 experience levels 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.

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1. 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 and McGrath, 1999; Dweck and 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 and Scott, 1991).

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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 and 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.

2. 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), 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 and 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 2600 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

Table 1
Coding scheme of the attributional dimensions.

Attributional dimension	Frequency	Illustrative text excerpts
Internal – controllable – permanent	24	"Over the past 3 years, we have tried various products and markets in the event industry and have not made a business with growth."
Internal – controllable – temporary	18	"First, we had a major, avoidable hard drive crash."
Internal – uncontrollable – permanent	10	"Throughout my teenage years and early 20 s, I became fascinated with modified Volkswagens. However, I am no longer."
Internal – uncontrollable – temporary	8	"Unfortunately, we did not have enough cash to properly market the technology."
External – controllable – permanent	5	"Unfortunately the news on [the company] is not so good. [...] having had a 'no' from [customer 1] and no further orders from [customer 2]."
External – controllable – temporary	3	"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."
External – uncontrollable – permanent	20	"[the company] ceases its activities as of today, due to bad economic prospects within the music and online advertising market."
External – uncontrollable – temporary	23	"Due to the tough economic climate, we are planning to cease operations and shut down the company in the near future."

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