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Aspiring to succeed: A model of entrepreneurship and fear of failure[☆]

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ABSTRACT

Fear of failure can dominate the choices of individuals. We model its role in the decision to become an entrepreneur and subsequent investments made in pursuit of success using the framework of loss aversion. We show that when an individual's threshold for success is sufficiently high, fear of failure motivates additional investment. When the threshold for success is equal to the foregone outside option, on the other hand, fear of failure is always de-motivating. Finally, regardless of the success threshold, fear of failure is negatively associated with entry into entrepreneurship. Our findings highlight the importance of the interaction between the degree of fear of failure and the aspirations of the would-be entrepreneur.

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1. Executive summary

Fear of failure can have a profound effect on entrepreneurial choices. While commonly viewed as an obstacle to be overcome, some anecdotal accounts also describe the motivating power of fear of failure, highlighting it as a key to their success. In this paper we propose a formal model of entrepreneurial fear of failure capable of explaining both views. This model illustrates how fear of failure affects entry as well as investment decisions of entrepreneurs.

Fear of failure may be seen as a form of loss aversion. For those harboring such fears, losses (i.e. failures) weigh more heavily than gains (i.e. successes), both of which are measured relative to some reference point. For a would-be entrepreneur, the reference point represents an aspiration level for achieving success. In the model, potential entrepreneurs decide first whether to enter into risky entrepreneurship or opt for a safe employment wage. In a second step, they choose the intensity of investment into their ventures. These investments, together with random factors such as luck as well as the level of competition determine the chances of success of each venture.

We find that while the effect of fear of failure on entry decisions is unambiguously negative, i.e. higher fear of failure discourages entry into entrepreneurship, its effect on entrepreneurial investment is ambiguous and depends crucially on the reference

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point. Ambitious entrepreneurs with high aspiration levels increase their investments with an increase of fear of failure, while entrepreneurs with low aspirations decrease investments as they become more fearful.

The reason that the effects are heterogeneous stems from the dual effect that an increase in fear of failure has on investment incentives. On the one hand an increased fear of failure increases the expected psychic cost of investment, which depresses incentives. On the other hand, failure is now even more painful, raising incentives to invest and thereby avoid failing. For those with high aspirations, failure is exceptionally painful, so the latter effect dominates. For those with lower aspirations, the former dominates.

Our results have important empirical implications. The effect on investment of the interaction between aspirations and fear of failure represents a novel testable prediction of the model. Indeed, empirical models of fear of failure that fail to account for the reference point will be misspecified and thus produce misleading estimates.

2. Introduction

Jill Blashack Strahan calls it the fear factor—the moments of overpowering doubt when success seems impossible. For Strahan one such moment was when every aspect of life seemed to be collapsing around her. Three months behind on her mortgage and now suddenly a widow, she faced the scary prospect of raising her five year old son Zach, and her flagging entrepreneurial venture, alone. “The night after the funeral of my husband, I thought maybe I should give up, get a job and be a mom” said Strahan in an interview with Entrepreneur magazine.

No one would blame her for doing exactly that. Many in Strahan's position would put entrepreneurial dreams on hold, possibly permanently but not her. She threw her entire savings, and, indeed, her entire life into her venture, working 80 h per week without letup for more than a decade.

For Strahan, the fear factor became a source of strength and power. And succeed she did; her company, Tastefully Simple, grossed nearly \$100 million in 2012 and continues to grow. Yet she acknowledges that not everyone responds as she did. People cope with fear of failure in many ways, some good, and some bad. In Strahan's pithy phrase, “You always have a choice. You can get better or get bitter.”^{2,3}

Will Smith was a small-time Philadelphia rapper when his collaboration with DJ Jazzy Jeff, the tune “Parents Just Don't Understand” became a breakout hit. Smith now ranks among the highest earning Hollywood actors. When asked about his success, Smith turns the conversation to failure. “I've always had a horrible fear of not achieving ...” he told *Parade* magazine. “All it takes is just one person telling me I can't do it, and I'll use the fear of failure as fuel.”⁴ Neither Strahan nor Smith are terribly unusual in their views. Many successful individuals worry endlessly about failing, yet find this a source of motivation and strength.

We all fear failure to some degree. For would-be entrepreneurs, such fears seem to represent a critical hurdle to be overcome rather than a virtue to be nurtured. So pervasive is this view that an enormous self-help industry exists to help aspiring entrepreneurs overcome these fears.

How can fear of failure be both a problem to be overcome and a secret weapon for success? Or, a better question, under what circumstances is each view correct? In this paper, we investigate how fear of failure affects the choices of would-be entrepreneurs—how it affects the decision to become an entrepreneur and the subsequent sacrifices made in pursuit of success. We suggest a way to reconcile the negative views of the self-help literature and the positive views of Strahan and Smith, moving beyond the facile explanation that Smith and Strahan merely overcame their fears, in effect, no longer suffering from them.

We view fear of failure as an unchanging attribute, something that may be coped with but not altered. We then ask whether this attribute is always a negative. Put differently, we ask whether there is such a thing as “the power of negative thinking” and, if so, when and how it operates? While data exist linking fear of failure with the decision to enter into entrepreneurship, empirical studies have yet to take up questions concerning fear of failure and subsequent entrepreneurial performance. For the moment at least, researchers have only anecdotes to go on. We add to this by offering a theory of entrepreneurship when individuals suffer from fear of failure.

One might view fear of failure as merely some form of risk aversion. But fear of failure has a key feature, absent from conventional expected utility theory: it requires some *internal yardstick* for counting outcomes as successes or failures. In other words, outcomes are judged, not in their own right, but relative to some reference point, which we call an aspiration level, representing the threshold for success. The degree of fear of failure then represents the difference in the pain suffered from falling short of the mark versus the pleasure gained from exceeding it by the same amount. Modeled in this fashion, fear of failure can be seen, not as risk aversion, but as a type of loss aversion. We embed these payoffs in a setting where individuals choose between employment, which offers a safe return, and entrepreneurship, which is risky. Success in the latter depends upon individual investment, competition, and luck.

While much of the extant entrepreneurship literature focuses on entry, at least as important are subsequent financial, physical, and emotional sacrifices, made in pursuit of success. These are presumably less studied because they are much harder to measure. Yet entry surely depends on expectations about these sacrifices. A key distinction in our model and results is its focus on post-

² <http://www.entrepreneur.com/article/230350>.

³ http://www.directsellingnews.com/index.php/view/the_most_influential_women_in_direct_selling/P19#.VE_ArPnF868.

⁴ *Parade*, 11 July 2004, pg. 4–6, by: Dotson Rader, “My Fear Fuels Me”.

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