



Individual responses to firm failure: Appraisals, grief, and the influence of prior failure experience ☆☆☆



Anna S. Jenkins ^{a,*}, Johan Wiklund ^{a,b}, Ethel Brundin ^a

^a Jönköping International Business School, Box 1026, 551 11, Jönköping, Sweden

^b Whitman School of Management, Syracuse University, 721 University Avenue, Suite 116, Syracuse NY 13244-2450, United States Syracuse University, USA

ARTICLE INFO

Article history:

Received 8 August 2011

Received in revised form 22 October 2012

Accepted 22 October 2012

Available online 22 November 2012

Field Editor: D. Shepherd

Keywords:

Firm failure

Grief

Appraisals

Psychological capital

Prior failure experience

ABSTRACT

This paper provides a systematic assessment of how entrepreneurs react to firm failure. We use appraisal theory as an overarching theoretical framework and hypothesize that the more the failure experience is appraised as stressful in terms of its implications for harm or loss, the greater the feelings of grief. To test this hypothesis we developed a unique database of entrepreneurs who recently filed for firm bankruptcy. Our results support that there is great variation in responses to firm failure, and we provide theoretically valid explanations to why this is the case. These findings have substantial implications for how scholars conceive and theorize about entrepreneurial failure.

© 2012 Elsevier Inc. All rights reserved.

1. Executive summary

Research in entrepreneurship has started to explore the negative consequences that firm failure can have for entrepreneurs suggesting that failure is likely to be associated with emotional distress, thereby leading to grief (Shepherd et al., 2009). To date, however, there has been no systematic investigation into the factors that influence how entrepreneurs respond to entrepreneurial failure. Focusing specifically on emotional responses, we investigate the extent that entrepreneurs feel grief after firm failure and hence the reasons why entrepreneurs may react differently to the failure of their firms.

To do this, we build on appraisal theory (Lazarus and Folkman, 1984). This theory takes as its starting point that how an individual appraises a stressful experience influences how they respond to the experience. Appraisal is the process by which individuals evaluate whether a particular experience is relevant for their well-being (Lazarus and Folkman, 1984). We focus on appraisals of harm or loss which capture the negative implications of firm failure in terms of what has been lost and are thus relevant for understanding grief reactions.

To identify harm–loss appraisals that are likely to be salient after firm failure we build on findings from the job loss literature and consider the factors that distinguish self-employment from paid employment. We hypothesize that the more the failure is appraised as involving harm or loss in terms of loss of self-esteem, financial strain, and loss of independence, the greater the

☆ This research received financial support from the Sparbankens (Swedbank) Research Foundation and the Swedish Entrepreneurship Forum.

☆☆ We are grateful to the Editor-in-Chief of Journal of Business Venturing, Professor Dean Shepherd and three anonymous reviewers for their constructive feedback on this paper. We are also thankful to Friederike Welter and Veronica Gustafsson for their helpful comments at the Jönköping International Business School writing lab.

* Corresponding author. Tel.: +46 36101847; fax: +46 36160070.

E-mail addresses: Anna.Jenkins@jibs.hj.se (A.S. Jenkins), jwiklund@syr.edu (J. Wiklund), Ethel.Brundin@jibs.hj.se (E. Brundin).

feelings of grief. We also consider whether the entrepreneur was a portfolio entrepreneur or a hybrid entrepreneur because additional employment roles can act as psychological compensation in the event of firm failure. Thus, we hypothesize that portfolio and hybrid entrepreneurs are less likely to appraise the failure as involving harm and loss. To understand the role that prior failure can have on grief reactions, we draw on the psychological capital literature and hypothesize that prior failure experience buffers the relationship between appraisals of harm or loss and grief. To test these hypotheses we developed a unique database of entrepreneurs who recently experienced firm failure and filed for firm bankruptcy.

We found that there is substantial variance in the extent that entrepreneurs feel grief after firm failure. In particular, we found that appraisal of loss of self-esteem had the strongest influence on grief. Loss of self-esteem indicates that an individual feels that they have personally failed in a domain in which they have staked their self-worth (Crocker and Wolfe, 2001). This finding can therefore help identify when firm failure is also experienced as a personal failure. We also found that the appraisal of the failure in terms of harm or loss had a greater influence on feeling grief than more distal variables such as whether the entrepreneur had additional firms or employment at the time of the bankruptcy.

2. Introduction

Uncertainty is a defining characteristic of entrepreneurship (cf. Knight, 1921). As such, the outcomes of entrepreneurial endeavors are unknown and unknowable a priori, leading to variance in the outcome distribution of entrepreneurial efforts (McGrath, 1999). Some ventures will be successful while others will fail. Looking across a series of entrepreneurial attempts within a society, greater variability of outcomes, including more failures and larger successes, is positive for overall development (McGrath, 1999). Thus, from a societal viewpoint, failure might not only be a necessary consequence of uncertain entrepreneurial endeavors but may also be desirable. The potentially positive consequences of failure for entrepreneurs, however, are less apparent. Scholars have started to explore the consequences of entrepreneurial failure, highlighting the negative implications it may have for entrepreneurs. It has been suggested that failure is likely to be associated with financial loss as well as emotional distress, thereby leading to grief (Shepherd et al., 2009). To the extent that failure is a learning experience, learning is neither immediate nor automatic (Shepherd, 2003). To date, however, there has been no systematic investigation of the factors that influence how entrepreneurs respond to entrepreneurial failure. Focusing specifically on emotional responses, we investigate the extent that entrepreneurs feel grief after firm failure.

Given that grief can play an influential role in the process of learning from failure and reducing entrepreneurial motivation, we examine what makes firm failure emotionally devastating for some entrepreneurs and not others. To do this, we build on appraisal theory. Central to this theory is the idea that people's emotional reactions depend on their subjective evaluation, or appraisal, of an experience (Lazarus and Folkman, 1984). Therefore, this theory can help explain why entrepreneurs vary in the extent to which they react negatively when their businesses fail.

To examine entrepreneurs' grief after firm failure, we developed a unique database of entrepreneurs who recently experienced firm failure and filed for firm bankruptcy in order to test our hypotheses. In so doing, we make five principal contributions to the literature.

First, a growing community of scholars is showing interest in further understanding the personal implications of entrepreneurial failure, but prior research has not sufficiently disentangled the failure of the business from the failure of the entrepreneur (Cardon et al., 2011). Some assume that failure has strong positive implications for the individual entrepreneur and represents the "fire that tempers the steel" (Timmons, 1999 p. 47). Others assume that failure has devastating implications for the individual (Singh et al., 2007). In this research, we develop and test hypotheses suggesting that there is substantial variance in entrepreneurs' responses to a similar failure event, i.e., they react differently to the failure of their firms and we find empirical support for this notion. Thus, we are able to conceptually and empirically resolve this apparent conflict in individuals' interpretations of failure.

Second and related to the first contribution, we specify a mechanism that can help distinguish when firm failure is also experienced as personal failure—namely, loss of self-esteem. Individuals experience loss of self-esteem when they experience personal failure, and this is manifested in the experience of negative emotions (Crocker and Wolfe, 2001). Thus, loss of self-esteem is an important mechanism that transfers the failure of the firm to a personal failure for the entrepreneur. This has important implications for how scholars conceive and theorize about entrepreneurial failure. For example, we suggest that feelings of grief and loss of self-esteem after firm failure can help identify when firm failure is also experienced as personal failure.

Third, we contribute more generally to the entrepreneurial failure literature by showing the importance of an entrepreneur's interpretation of and response to failure. By developing a set of context-specific appraisals that help explain the variance in grief after firm failure, we show that entrepreneurs' interpretation of the failure in terms of what has been lost drives feelings of grief rather than the entrepreneurs' objective situations. This suggests that future research should focus on both how firm failure is interpreted by the entrepreneur in addition to focusing on more distal variables, such as the number of firms the entrepreneur owns and runs. Our findings also give support to the empirical relevance of using theories from cognitive and social psychology for understanding how entrepreneurs respond to failure. Research to date has used theories from these fields to develop conceptual propositions to explain how entrepreneurs respond to failure; however, there has been limited empirical investigation using such theories (Ucbasaran et al., 2012).

Fourth, appraisal theory has been used to explain employee reactions to job loss, suggesting that the degree of loss of self-esteem and financial strain influences the emotional stress associated with a job loss. However, empirical testing of the relationship between cognitive appraisal and emotional responses to job loss is limited (McKee-Ryan et al., 2005). We extend this

Download English Version:

<https://daneshyari.com/en/article/10493906>

Download Persian Version:

<https://daneshyari.com/article/10493906>

[Daneshyari.com](https://daneshyari.com)