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Fear of failure as a mediator of the relationship between obstacles and nascent entrepreneurial activity—An experimental approach☆

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ABSTRACT

The present study introduces fear of failure as a responsive avoidance motive to the entrepreneurship literature and demonstrates its relevance as a psychological process in three experimental studies with nascent entrepreneurs. Drawing upon a social cognitive perspective on achievement motives, we show that fear of failure explains how obstacles encountered in the nascent phase affect individual entrepreneurial activity. We demonstrate that the perception of obstacles activates fear of failure, which, in turn, has a detrimental impact on opportunity evaluation and exploitation. Fear of failure's mediating effect generalizes across different samples and various obstacles (resource-oriented, market-oriented, and social-capital-oriented obstacles), and contributes to entrepreneurship research and practice by explaining individuals' decisions to withdraw from an entrepreneurial endeavor.

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Executive summary

In the early phases of founding a new business, withdrawal from entrepreneurship is a frequent phenomenon—nonetheless, prior research has not yet convincingly answered the question *why* nascent entrepreneurs abandon the business ideas they once decided to pursue (Khan et al., 2014; Hsu et al., 2016). The present study argues that obstacles encountered during the nascent phase are responsible for triggering a basic psychological avoidance motive—fear of failure—which then leads nascent entrepreneurs to devalue and to withdraw from their business opportunity. Our approach to fear of failure is theoretically based on a *social cognitive perspective on achievement motives* and extends prior research viewing fear of failure primarily in an isolated and static way (Cacciotti and Hayton, 2015; Cacciotti et al., 2016). While prior conceptualizations of fear of failure (especially the view of fear of failure as a “fixed trait”; e.g., Mitchell and Shepherd, 2011) might explain why individuals start entrepreneurial activities, they fail to adequately explain why nascent entrepreneurs withdraw from recently started entrepreneurial endeavors when they encounter obstacles. By showing that nascent entrepreneurs' fear of failure is activatable by failure-relevant obstacles encountered during nascent entrepreneurship, our approach is integrative and responsive—it enables us to explain dynamic individual reactions to business-related threats. At the core of our study, we propose a mediation model in which fear of failure serves as the critical mechanism through which obstacles affect individuals' entrepreneurial activity (i.e., opportunity evaluation and

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subsequent opportunity exploitation). Three categories of exogenous loss-related obstacles are derived from seminal theories on venture success: Specifically, we examine the effects of resource-based, market-based, and social-capital-based obstacles.

We test our theoretical propositions in three experimental studies with nascent entrepreneurs. In Study 1, we use a reaction time experiment to demonstrate that fear of failure is responsive to (i.e., activatable by) failure-relevant situational cues in an entrepreneurship setting and consequently affects entrepreneurial decision-making. In Studies 2 and 3, we empirically test the hypothesized mediation model assuming that fear of failure mediates the effects that obstacles have on nascent entrepreneurs' entrepreneurial activity. Across both studies, we find an overall consistent support for the mediating role of fear of failure (full mediation effects). In other words, being confronted with resource-based, market-based, and social-capital-based obstacles significantly triggers individuals' fear of failure, which, as a central driving force, made individuals evaluate their business opportunities less favorably and eventually led to a reduced likelihood of exploiting that business opportunity.

From both theoretical and practical angles, our study helps to understand why so many nascent entrepreneurs withdraw from business opportunities in the face of obstacles. On the one hand, it highlights the importance of considering obstacles that nascent entrepreneurs face when founding a new business—obstacles threatening the success and survival of the new venture. On the other hand, our findings show that taken alone, obstacles cannot fully explain individuals' entrepreneurial activity. Instead, it is a psychological process—the activation of fear of failure—that is triggered and is in turn responsible for individuals' avoidance reactions in the face of obstacles.

As a theoretical contribution, our study complements traditional management approaches that have mainly relied on objective characteristics relating to the business opportunity itself and the business environment. Our findings highlight that shedding light on the role of the *individual* in the nascent process and considering a novel intra-psychological mechanism in response to obstacles allows for novel insights to understanding entrepreneurial activity. In addition, our study introduces a new perspective on fear of failure that provides future research with a valuable way to assess individuals' dynamic reactions to obstacles encountered during entrepreneurship. In practical matters, experiencing fear of failure in the face of obstacles can serve as an important warning sign for nascent entrepreneurs. Besides taking into account *objective* characteristics of the opportunity itself and the business environment, the current research establishes that fear of failure can provide additional informational value indicating whether or not a business opportunity should be carried forward or not. Paying close attention to fear of failure can also benefit advisors and investors working with nascent entrepreneurs, because it may reflect the perceived success probability of the new venture and provide implications on how best to advise nascent entrepreneurs.

1. Introduction

The question of why many initially confident nascent entrepreneurs withdraw from their plans to found a new venture at some point in the process is of great theoretical and practical relevance, but remains largely unanswered to date (Khan et al., 2014; Hsu et al., 2016; Davidsson and Gordon, 2016). We argue that taking into account nascent entrepreneurs' fear of failure is a key to explaining such withdrawal from entrepreneurship. The main contribution of the present study is to establish fear of failure as a central psychological mediator in the entrepreneurship literature. Fear of failure is introduced as a responsive avoidance motive, which is activated through obstacles occurring in the process of founding a new venture and has important effects on individuals' subsequent entrepreneurial activity in the form of opportunity evaluation and exploitation.

Fear of failure has attracted considerable attention in the entrepreneurship literature (e.g., Cacciotti et al., 2016; Morgan and Sisak, 2016) and researchers have presented various insightful conceptualizations of fear of failure (for a comprehensive review see Cacciotti and Hayton, 2015). These existing approaches have advanced understanding of why individuals *start* entrepreneurial endeavors or why they do not (e.g., Mitchell and Shepherd, 2011; Morgan and Sisak, 2016). However, prior research fails to adequately explain why individuals *withdraw* from a recently started entrepreneurial activity in the face of obstacles, and which psychological mechanisms underlie these withdrawal decisions in the entrepreneurial process. This gap can be ascribed to the predominant view of fear of failure as being a static and isolated attribute, and one thus unable to explain dynamic individual reactions to threats in the external environment (for a recent review of the extant literature see Cacciotti and Hayton, 2015 and Cacciotti et al., 2016).

In the present study, we argue that a *responsive and integrative approach* to fear of failure is necessary to fully understand individuals' withdrawal decisions in the dynamic entrepreneurial process. In doing so, we first refrain from viewing fear of failure as a “fixed trait”, and therefore diverge from prior research which has often conceptualized fear of failure as an unchangeable predictor (e.g., Mitchell and Shepherd, 2011) or moderator (e.g., Wood et al., 2014). Instead, we adopt a *social cognitive perspective on achievement motives* and position fear of failure as a *responsive avoidance motive* that is activated through obstacles in the process of founding a new venture. Second, in doing so, our approach avoids the constraints of an isolated view of fear of failure that disregards the entrepreneurial reality of the nascent entrepreneur. Our integrative approach considers instead both business-related characteristics threatening the success of the new venture (i.e., obstacles) and the subsequent psychological reactions of the individual. Following the observation that nascent entrepreneurs are frequently confronted with obstacles that can be critical to the success of their new ventures (Dewald and Bowen, 2010; Cacciotti et al., 2016; Morris et al., 2012), we thus shed a much needed light on the actual effects of these obstacles. We argue that the perception of obstacles results in a devaluation of and withdrawal from the business opportunity and that this negative effect of obstacles is mediated through a fundamentally psychological process, that is, the activation of fear of failure.

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