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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."

business failure being attributable to cyclical trends and issues such as a short-term economic crisis.

The outcome focused upon in this study is the restarting of EA in the form of a new venture. Analyzing a non-outcome can lead to richer conclusions in configurational studies (Krause et al., 2014), and hence we included the non-outcome, that is, abandoning EA. As we could not scrutinize the entrepreneurs' entire career, we focused solely on the next career move after business failure. In so doing, we excluded founders who restarted EA at a later stage in their career. Hence, entrepreneurs who started a subsequent venture directly after experiencing a previous business failure were allocated a score of 1, while those who chose a different career path were allocated a score of 0.

As illustrated in Table 1, the shutdown notices in our sample offered various explanations of why entrepreneurs discontinued trading. In this study, we focus on three conditions—the three attributional dimensions suggested by Weiner (1985) that have been found to be particularly relevant in achievement settings (e.g., success and failure)—the perceived locus of causality, the perceived controllability, and perceived stability of the cause.

The conditions were determined by manually coding the causes of business failure, as stated in the shutdown notices. Each explanation was first identified and then evaluated in terms of the three attributional dimensions: Locus of causality was coded as 1 for primarily internal causes, and 0 for primarily external causes. Controllability was marked as full-member for primarily uncontrollable causes and non-member for controllable causes. Stability was coded as 1 for permanent causes and 0 for temporal causes. This procedure was conducted by two of the authors resulting in a satisfactory interrater-reliability. Cohen's Kappa was used as a measure of agreement between the two raters, and was found to be substantial at 0.66 (Landis and Koch, 1977). Consensus coding was then used to resolve those cases on which the two raters initially disagreed.

We divided our sample into three groups based on the lead-founders' previous entrepreneurial experience and subsequently ran three separate analyses: for novice entrepreneurs (no prior EA before business failure), serial entrepreneurs (entrepreneurs who started up and exited more than one previous venture before experiencing business failure), and portfolio entrepreneurs (operating more than one business simultaneously when business failure happened).

3. Results

QCA identifies necessary and sufficient conditions (Ragin, 1987). The separate necessity analysis revealed no such conditions for the restarting EA outcome or for the non-outcome, abandoning EA. The sufficiency analysis for the restart outcome did not return any meaningful results for any of the three types of entrepreneur. Hence, our analysis results in three configurations for novices, two configurations for serial entrepreneurs, and one configuration for portfolio entrepreneurs explaining why entrepreneurs do not immediately start another venture after a business failure.

The solutions for novice, serial, and portfolio entrepreneurs are presented in Fig. 1. Following Ragin (2008), filled circles indicate the presence of conditions, whereas empty circles indicate their absence. Large circles represent core conditions that are part of both the intermediate and parsimonious solution, and small circles those peripheral conditions that are only

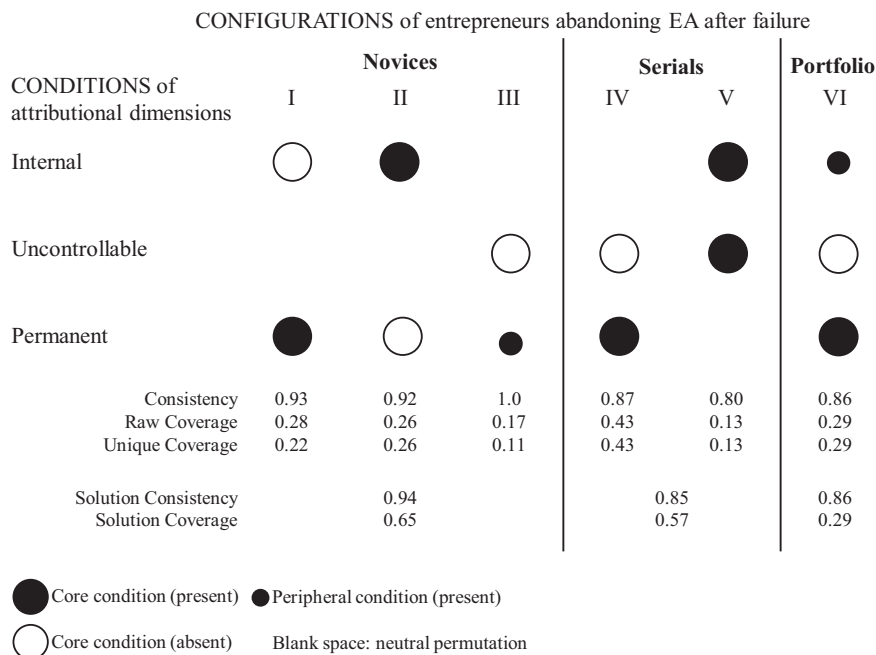


Fig. 1. Results on the termination of EA for novice, serial, and portfolio entrepreneurs.

part of the intermediate solution.

With regard to coverage levels, it is evident that the combination of the locus of causality, controllability, and stability dimensions explain a higher proportion of the phenomenon for novice entrepreneurs abandoning EA (65%), a still high proportion for their serial counterparts (57%), but a smaller proportion of the phenomenon for portfolio entrepreneurs abandoning EA (29%). According to our analysis, both commonalities and differences exist. Thus, there are two almost identical configurations (III and IV) that explain why both novice and serial entrepreneurs abandon EA, although the permanent cause is only a peripheral condition for novices. Configuration VI, which explains portfolio entrepreneurs abandoning EA, is also very similar, but requires the perception of the cause to be internal as a peripheral condition. Additionally, we found two configurations that explain exclusively why novice entrepreneurs (I and II) do not re-embark on entrepreneurship and one configuration that illustrates exclusively why serial entrepreneurs (V) do not start another venture after business failure.

Apparently, causes the entrepreneur perceives as controllable and permanent regardless of the locus of causality (configuration III and IV) likewise lead novice and serial entrepreneurs to abandon EA. In configurations I and II the controllability of causes does not matter, instead the perception of external and permanent causes and also internal and temporary causes explains why novices do not start another business. Finally, serial entrepreneurs are discouraged from re-embarking on entrepreneurship when they attribute business failure to internal and uncontrollable causes (configuration V).

4. Discussion

Our study paves the way for further empirical studies on entrepreneurs' professional lives following business failure (Ucbasaran et al., 2013) by contributing to existing literature in at least two distinct ways. First, we extend the stream of literature analyzing the differences between those entrepreneurs who start a subsequent venture after the closure of their former business, and those ex-entrepreneurs who do not re-embark on entrepreneurship after their previous entrepreneurial endeavor (see Hessels et al. (2011), Schutjens and Stam (2006), Ucbasaran et al. (2006)). Thus, our analysis confirms locus of causality, controllability, and stability are important aspects of processing and explaining business failure, and to a large extent explain novice, serial, and portfolio entrepreneurs' subsequent behavior with regard to abandoning EA after business failure, or their focusing on the other businesses they control.

The results of this study should encourage a more nuanced appreciation of failure attributions, and especially how business failure might affect entrepreneurs on the cognitive, affective, and behavioral levels until they arrive at the decision to re-embark on entrepreneurship or not (Mantere et al., 2013; Yamakawa and Cardon, 2015). Analyzing these important outcomes could further enhance our understanding of what drives entrepreneurs to remain entrepreneurial, to pursue an entirely different career path, or to focus on the businesses they currently operate.

With regard to restarting EA by founding another venture following a business failure, our analysis revealed no shared pattern. This is particularly interesting as it allows us to speculate. While attributing the cause of business failure internally may result either in a helpless- or a mastery-reaction (Cardon and McGrath, 1999), it has been widely acknowledged that denying responsibility for failure favors the self (Brown, 1997) and is linked to maintaining self-efficacy among other things (Drnovšek et al., 2010; Tay et al., 2006; Engel et al., 2014). As self-esteem is sustained, we would expect denying responsibility to play an important role in motivating failed entrepreneurs to start another venture. As we could not find support for such a relationship, our study may prompt further research investigating the role of other concepts and conditions (e.g., entrepreneurial alertness, learning, stigmatization) during and after entrepreneurs' recovery from business failure.

Second, the results contribute to the literature distinguishing novice entrepreneurs from their serial and portfolio entrepreneur counterparts (Westhead and Wright, 1998; Westhead et al., 2005). That is because this research finds commonalities and differences between both types of entrepreneurs with regard to the configurations that lead to abandoning EA after a business failure. In the case of novice and serial entrepreneurs, we found that permanent but controllable events partly explain why both types of entrepreneurs abandon EA. Interestingly, portfolio entrepreneurs decide against starting another venture when additionally acknowledging personal involvement in the failure event. This points to a general inability among entrepreneurs to process the reasons for business failure when they view a particular failure event as a result of rather enduring forces, that is, their perceived inability to create a sustainable business. Interestingly, entrepreneurial experience does not seem to mitigate that inability, thus potentially indicating the severity of the causes of business failure mentioned above.

Moreover, further contrasting the unique configurations of novice and serial entrepreneurs abandoning EA after business failure indicates a certain shift in the focus of attention in the event of a business failure. While in the case of serial entrepreneurs exclusively assuming personal involvement (in combination with having no control over the business failure event) is a core condition in explaining the decision not to re-embark on entrepreneurship, novice entrepreneurs abandon EA when they attribute business failure to both internal and external circumstances. Moreover, while novice entrepreneurs place increased emphasis on perceived permanence or variability, serial entrepreneurs tend to focus on the degree of controllability of a cause to inform their decision to opt for a different career path.

Apparently, entrepreneurial experience prompts people to evaluate and process business failure differently, which might in turn indicate that entrepreneurs actually learn to make sense of business failure. This is an important aspect, as it highlights how the present research contributes to the stream of literature suggesting that entrepreneurs might learn from

failure as they evolve (potentially at least) from being novice entrepreneurs to serial entrepreneurs (Politis and Gabrielsson, 2009; Politis, 2008). Future research could explore in greater detail how entrepreneurial experience affects the psychological processing of business failure. What heuristics and coping mechanisms do novice and habitual entrepreneurs apply following business failure? What are the communalities and differences? Which mechanisms are the most effective? These are important questions that remain to be answered before we will fully understand entrepreneurs' lives after business failure.

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