



A Social-Cognitive Model of Entrepreneurship Failure: Beyond Attributional Style

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Abstract

Attribution theory (Heider 1958; Kelley 1967) attempts to explain how individuals assign causes for events they both observe and have happen to them. For many first time entrepreneurs, that event may well be failure. The relationship between attribution and failure has been addressed in the entrepreneurship literature (for example, Askim—Lovseth and Feinberg 2012). We extend that work with the argument that people bring a particular belief system (known as a mindset) to the entrepreneurial venture and this belief system leads to specific attributions in the face of negative feedback and/or possible failure. Research proposals to test the model are presented.

Keywords: mindset, attribution, business failure, entrepreneurship

INTRODUCTION

It is generally accepted that entrepreneurs begin new ventures because they recognize opportunities that others do not or recognize but fail to act upon (Ardichvili, Cardozo, & Ray, 2003). It logically follows that the entrepreneur would not risk time, energy, and capital if he or she did not have a reasonable expectation of success.

Scholars conducting research in entrepreneurship tend to focus on what makes an entrepreneur successful while paying scant attention to failure (Minniti & Bygrave 2001; Shepherd 2003; Singh, Corner & Pavlovich 2007). This bias toward success factors in the entrepreneurship literature deprives researchers and practitioners of valuable insights about what can be learned from failure. This lack of interest in failure is especially interesting in light of the high failure rate of new ventures. According to the Bureau of Labor Statistics, the survival rate of new ventures after five years is only 49.3 percent (Bureau of Labor Statistics). (Business Employment Dynamics, 2010)

Several researchers, however, have recently begun to examine the causes of entrepreneurial failure (Askim-Lovseth and Feinberg, 2012; Cardon, Stevens, and Potter, 2011; Rogoff, Lee and Sub 2004; Yamakawa, Peng, and Deeds 2015). Each of these studies used attribution theory (Heider 1958; Kelley 1967) as the basis for determining the factors entrepreneurs attribute to their failure. Attribution theory has a long and valuable application in a number of business pursuits (for example, management, sales, and marketing). Yet, there are criticisms of attribution theory and some more recent concepts of social-cognitive motivation, specifically lay theories, may better explain one's attributions concerning failure or success (Hong, Chiu, Dweck, Lin, and Wan 1999; Silvera, Stein-Kjetil, and Iversen 2000).

The purpose of this paper is to propose a social-cognitive model that may be one explanation of why some entrepreneurs fail. Specifically, the model proposed here examines how

entrepreneurs react to unsatisfactory feedback once the venture is underway. That is, assuming an expectation of success, how does the entrepreneur process information that indicates his or her assumptions about success (actual opportunity, potential market, etc.) are not what they were believed to be when the venture began. The argument is that the entrepreneur's mindset, or manner in which he or she cognitively interprets the situation, will affect decisions to persist or withdraw. Thus, our model expands the attribution model used in prior research by examining attributional style before failure.

The paper is organized as follows: first, failure for the purpose of this paper will be defined; next, a brief review of attribution theory and its application to failure in the entrepreneurial literature will be examined. The following section is an explanation of mindset and the relationship of this concept to attribution theory. Finally, the concept of lay theories will be integrated into the attribution model and research proposals to test the model will be outlined.

FAILURE DEFINED

Failure has different meanings for different researchers. A simple definition of failure is to equate failure with liquidation bankruptcy or insolvency (Zacharakis, Myer & DeCastro 1999). Shepherd (2003) offers an expanded definition of failure as insolvency. By his definition, failure "occurs when a fall in revenues and/or a rise in expenses are of such magnitude that the firm becomes insolvent and is unable to attract new debt or equity funding; consequently it cannot continue to operate under the current ownership and management" (p. 318).

An even broader definition of failure is simply 'business discontinuance', adopted by Singh, et al. (2007). They preferred this broader concept because it includes not only economic factors but qualitative causes of failure as well. These include legal problems, disputes with partners or investors, and personal issues of the entrepreneur. It is this definition that is used for this paper. An entrepreneur may see the venture headed for failure and cease operations in time to salvage some of his or her investment. In this sense, the business 'failed' without declaring bankruptcy or becoming insolvent.

ATTRIBUTION THEORY

Attribution theory posits that people observe events and then attribute reasons or causes of the events. Causes are determined if the factors surrounding one event are present in similar events or if certain factors are absent when a series of similar events takes place (Heider 1958). The causes one attributes to an event have been categorized into different causal dimensions. A classification of causal dimensions provides a means of comparison between various causal explanations. This is important since for any event, there may be a number of possible causal explanations. Causal dimensions include internal/external (Heider 1958), stable/unstable, controllable/uncontrollable (Weiner 1985), and specific/global (Abramson, Seligman, and Teasdale 1978).

For example, a person whose entrepreneurial enterprise fails may attribute the cause of that failure to a lack of ability (internal) rather than the economy (external). Further, the cause may also be stable (lack of ability) or unstable (illness). Internal factors are considered controllable by the individual, while factors external to the individual are considered uncontrollable. Finally, attributions that fall into a narrow range of situations are specific causal dimensions while attributions within a broader range of situations are considered global dimensions. For example, a student who fails a math exam may attribute failure to poor math ability (specific) or to low intelligence (global).

Attribution Theory and Entrepreneurial Failure

As previously noted, attribution theory has been applied in many areas of business and psychology, yet it has only recently been applied directly to entrepreneurship (Rogoff, Lee, and Sub 2004). Below is a review of several of the studies that have applied attribution theory to entrepreneurial failure.

A recent example of the research on entrepreneurial failure is the work of Askim-Loveseth and Feinberg (2012). The authors apply attributional explanatory style to new venture failure. Based on theories developed by Heider (1958) and Kelley (1967) and expanded by Abramson, Seligman, and Teasdale (1978) and Weiner (1985, 1986), Askim-Loveseth and Feinberg (2012) conclude that there is at least partial support for a relationship between attributions entrepreneurs make concerning failure and the consequences of those failures (financial well-being, continuing with an entrepreneurial career, family relations, and psychic well-being).

Cardon, Stevens, and Potter (2011) examined the attributions of entrepreneurs who had failed in different areas of the United States. The authors found that whether the attribution was due to mistakes made by the entrepreneur or to conditions outside of the entrepreneur's control, the consequences and stigmatization of the failure varied from one section of the country to another.

Rogoff, Lee, and Sub (2004) looked at the concept self-serving attribution bias. This bias occurs when people take credit for their successes (internal attribution), but blame others or the situation for failure (external attribution). Their study concluded that the self-serving attribution bias was indeed present in many entrepreneurial failures.

Finally, Yamakawa, Peng, and Deeds (2015) looked at how previous entrepreneurial failure influenced one to try another venture. Cognitive factors investigated included attributions for failure, intrinsic motivation, and overall failure experience. In terms of attributions, the authors proposed that the more an entrepreneur attributed failure to internal causes, the more likely he or she was to try another venture. The idea is that he entrepreneur understands what went wrong and believes the mistakes can be corrected in a new venture.

Criticism of Attribution Theory

Despite its usefulness and application, there are three fundamental criticisms of attribution theory. The first involves the concept that attribution theory is actually bi-directional rather than unidirectional as proposed by Weiner (1985). Specifically, Bandura (1990) maintains that the emotional feedback loop of attribution theory influences self-efficacy and the self-efficacy, in turn, biases causal attributions. For example, an entrepreneur receiving negative feedback on the success of his or her venture will assign attributions based, in part, on self-efficacy. Self-efficacy is a person's belief about his or her ability to perform a specific task (Bandura 1989). The higher the entrepreneur's self-efficacy, the more likely the he or she will attribute impending failure as lack of effort (internal) while those with lower self-efficacy will attribute the failure to the external factor of luck (Bandura 1990).

A second criticism relates to the stability and controllability dimensions. In classical attribution theory certain traits or characteristics of the individual are believed to be unchangeable and uncontrollable (Weiner 1985). Ability to run a business is an example of such a trait. However, Dweck and Leggett (1988) argue that all traits and characteristics of a person are malleable, and, to some extent, under the control of the individual.

The third criticism of attribution theory is that there is a more basic cognitive process that individuals bring into a situation and that influence attributions (Dweck & Leggett 1988). Thus, attributions are part of a behavior pattern that is influenced by other factors. Criticisms, two and three relate to mindset, which we will discuss next.

MINDSET

Mindset is a mechanism used by people to make sense of the behavior and actions of themselves and others and fall along a continuum that measures the degree to which that person believes human traits are fixed. Those who believe human traits and characteristics are fixed and unchangeable have an entity mindset. People who believe that traits are malleable and changeable have an incremental mindset. For example, a person with an incremental mindset of intelligence believes that one's ability is not fixed but can be changed with effort. In contrast, one who holds an entity mindset of intelligence believes that ability is a fixed and uncontrollable trait.

It should be noted that while most people hold a particular mindset in most situations, people do not necessarily hold the same mindset in all situations (Dweck & Leggett 1988; Levy & Dweck 1998). For example, a person may hold an entity mindset in relation to intelligence and an incremental mindset concerning morality. That is, a person may believe that people cannot change their intelligence but can change their moral character.

Those with an entity mindset tend to base their judgments on initial observations. For example, children with an entity mindset who face their first challenging math test decide, based on that one test, that they are not good at math (Butler 2000). Further, adults with an entity mindset have demonstrated a willingness to stereotype others based on initial and limited information (Levy, Stroessner & Dweck 1998) and to resist changing trait assignments even when faced with objective evidence to the contrary (Plaks, Dweck, Stroessner & Sherman 2001). People with an entity mindset tend to make attributions that are global and stable. They also believe that an attribution made at one time is predictive of attributions that will be made in the future (Chiu, Hong, & Dweck 1997).

In contrast, people with an incremental mindset require more than an initial observation before assigning traits and are more likely to engage in and accept stereotype-inconsistent information (Levy, et al. 1998; Plaks, et al. 2001). An incremental mindset leads a person to take into account all relevant aspects of the situation and the individual's goals and intentions. Thus, often their attributions are unstable and controllable (Chiu, Dweck, Tong, & fu. 1997).

Mindset also has a motivational element. In a study of managers' willingness to coach employees, Heslin, Latham, and Vandewalle (2005) found that managers with an entity mindset were less motivated to coach employees (i.e., give guidance, facilitate problem solving, and inspire employees) than were incremental mindset managers. For entity mindset managers, traits are fixed and no amount of coaching will improve employee performance. On the other hand, incremental mindset managers see traits and ability as malleable and believe investment in employee coaching will lead to greater performance.

The concept of mindset (a/k/a implicit personality theory or lay theories) has a rich history in the cognitive psychology literature beginning with Heider (1958) and Kelly (1955). More recently, Carol Dweck and her colleagues (e.g., Dweck & Leggett 1988; Levy & Dweck 1998; Molden & Dweck 2006) have expanded the concept. Lay theories have been applied in research in a variety of areas: intelligence and motivation (Dweck & Leggett 1988); morality (Chiu, Dweck, Tong & Fu 1997); social judgment (Levy & Dweck 1998); stereotype formation (Levy,

Stroessner & Dweck 1998); academic achievement (Butler 2000; Robins & Pals 2000); older workers' ability (Wren & Maruer 2004); and shyness (Beer 2002).

Below we discuss how this willingness or unwillingness to engage in and accept negative feedback may affect the eventual failure of the entrepreneurial venture.

MINDSET AND ENTREPRENEURSHIP

As previously noted, an important step in the entrepreneurial process is opportunity recognition (Ardichvili, et al. 2003). Further, it is assumed that the entrepreneur holds an expectation of success sufficient to deploy the necessary resources to begin the venture. Should the venture prove successful, the entrepreneur's beliefs about the opportunity are confirmed and the venture continues.

However, often the entrepreneur is wrong about some belief related to the success of the firm. The error may be quantitative in that the entrepreneur over estimates cash flow from operations. Beliefs about success can also be qualitative. For example, two people who are social friends may find they do not work well as business partners. Once the beliefs about the success of the venture are challenged by the reality of the situation, the entrepreneur's mindset will influence the reaction to the new information.

Erdley and Dweck (1993) note that negative events are more likely to cause attributional processing than are positive events. Further, as attributional processing increases, there is more divergence in attributions assigned between entity and incremental mindsets. Thus, the event of an entrepreneurial failure is ripe for the study of how different individuals assign causes.

As an example, suppose an entrepreneur believes there is an opportunity for a restaurant in a small town and secures the necessary capital to begin the venture. For illustration purposes, assume the entrepreneur overestimated the market and, subsequently, cash flow from operations. With fewer customers and revenue than expected, the belief that the restaurant was a good opportunity is challenged by the facts.

The entity entrepreneur will, at least initially, attribute this negative feedback as a lack of ability. That is, you either know how to run a restaurant or you don't. Often, for the entity mindset, this information will be based on limited information leading to correspondence bias. In terms of attribution theory this casual explanation is internal, stable, uncontrollable, and global. The apparent lack of success of the restaurant is proof positive of this fact. The entity theorist, then, will likely abandon the project because he or she "just wasn't cut out to run a restaurant." Moreover, the entity mindset is less likely to correct this attribution in light of the situational context (e.g., a recession).

In contrast, the incremental entrepreneur will treat the negative feedback as diagnostic. That is, he or she will attribute the information to lack of effort or the situational context of an economic downturn and will increase effort or knowledge in order to make the restaurant a success. As an attribution, this is internal, unstable, controllable, and specific.

It is important to note that neither the entity nor incremental theorists is ignoring what they perceive to be reality. Mindset is an important trait to us because it helps us interpret the world around us.

Research Proposals

Consistent with the entrepreneurship literature (e.g., Ardichvili et al. 2003) the model assumes opportunity recognition is an integral part of the decision to begin a new venture. Further, it is logical to assume that the entrepreneur's employment of resources in the venture is based on a reasonable expectation of success. Success may be defined as a specific return on investment or simply the desire to be one's own boss. In either case, the venture must remain viable (solvent) to be successful in the long-term.

Should information that is inconsistent with this assumption of success (i.e., negative feedback) develop after the venture begins, the entrepreneur's lay theory will influence the reaction. Thus, we propose:

P1: Entrepreneurs with an entity mindset will attribute negative feedback to internal, stable, uncontrollable, and global traits (e.g., ability).

P1a: Entrepreneurs with an entity mindset are more likely to withdraw from the venture in the face of negative feedback than are entrepreneurs with an incremental mindset.

P2: Entrepreneurs with an incremental mindset will attribute negative feedback to internal, unstable, controllable, and specific traits (e.g., effort or situation).

P2a: Entrepreneurs with an incremental mindset are less likely to withdraw from the venture in the face of negative feedback than are entity theorists.

SUMMARY

Research into entrepreneurship failure is small compared to studies concentrating on entrepreneurial success (Zacharakis et al. 1999). This imbalance provides a less than holistic view of the entrepreneurial process. While there are many causes for failure, some can be recognized early as negative feedback is received.

This paper proposes that the social-cognitive concept of lay theories influences the entrepreneur's attributions and reactions to negative feedback. Entity entrepreneurs will attribute negative feedback to internal, stable, uncontrollable, and global traits leading to a tendency to abandon the venture. On the other hand, incremental theorists will attribute negative feedback to internal, unstable, controllable, and specific traits leading to a redoubling of effort to make the project a success. High self-efficacy strengthens the avoidance of failure in both groups.

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