

**Università degli Studi di Padova**



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# **ENTREPRENEURIAL FAILURES**

## **AN EMPIRICAL ANALYSIS**

Supervisor            Prof. Paolo Gubitta  
Co-Supervisor        Mrs. Serenella Antoniazzi

Candidate            Mohamed Abdulrazzak Achouri  
ID Number            1109559

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# INDEX

<b>INTRODUCTION &amp; SUMMARY .....</b>	<b>1</b>
1. CHAPTER .....	3
<b>THE ENTREPRENEURIAL FAILURE: MEANINGS AND DETERMINANTS.....</b>	<b>3</b>
1.1 Introduction.....	3
1.2 What is entrepreneurial failure? Toward an holistic definition .....	5
1.2.1 Bankruptcy: an Historical Definition of Entrepreneurial Failure .....	5
1.2.2 The Economic Dimension.....	6
Deterministic Approach .....	7
Voluntarist Approach.....	8
Emotive Approach .....	10
1.2.3 The Psychological Dimension .....	12
1.3 The Locus of Causality .....	13
1.4 The Holistic Definition of Entrepreneurial Failure .....	14
Total Failure.....	15
Zero Failure {Ø}.....	16
Persistence with failure.....	16
Exit attributable to failure .....	16
1.5 Toward a more nuanced definition of Entrepreneurial Failure: Business Life Cycle and Entrepreneurial Career Life Course .....	18
1.5.1 Business Life Cycle .....	19
New Venture .....	19
Well-established Venture.....	20
Entrepreneurs Cluster’s Motivation .....	20
Contextualization of Khelil’s Configurations of Entrepreneurial Failure .....	21
1.5.2 Entrepreneurial Career Life Course .....	22
1.6 Entrepreneurial Failure of the Family Firms .....	24
1.6.1 What Family Firms are .....	24
1.6.2 Firm Level of Analyzes .....	26
Warm Hearts with Deep Pockets .....	26
Pained Hearts with Deep Pockets .....	26
Warm Hearts with Empty Pockets .....	27
Pained Hearts with Empty Pockets .....	27
1.6.3 Individual Level of Analyses .....	28
1.7 Conclusion .....	29
2. CHAPTER .....	31
<b>FAMILY BUSINESS FAILURE: IN BETWEEN SOCIO EMOTIONAL WEALTH AND PASSION.....</b>	<b>31</b>
2.1 Introduction.....	31
2.2 Socio Emotional Wealth Theory .....	32
2.3 FIBER Model.....	34
Family control and influence .....	34
Family members’ identification with the firm .....	35
Binding social ties.....	35

Emotional attachment .....	36
Renewal of family bonds to the firm through dynastic succession .....	36
2.4 Dynamics of SEW: Stock and Flows of Emotion Resources .....	37
2.5 <i>Why</i> and <i>How</i> SEW affects the <i>nature</i> of Entrepreneurial Failure .....	39
2.6 Final decision makes priorities: contingency variable.....	39
Family Stage .....	40
Firm Size.....	40
External Environment .....	41
2.7 What is Passion in Family Firms? .....	42
2.8 Conclusion .....	43
3. CHAPTER .....	45
<b>AN EXPLORATIVE STUDY OF FAILURE IN FAMILY FIRMS .....</b>	<b>45</b>
3.1 Introduction.....	45
3.2 An Explorative Study .....	45
Methods and Procedures .....	45
Case Selection.....	46
Data Collection .....	46
3.3 Case Study Alfa .....	49
Perceived entrepreneurial career satisfaction .....	49
Perceived failure .....	50
Passion .....	50
Socio-Emotional Wealth .....	51
3.4 Case Study Beta .....	51
Perceived entrepreneurial career satisfaction .....	51
Perceived failure .....	52
Passion .....	52
Socio-Emotional Wealth .....	52
3.5 Case Study Gamma.....	53
Perceived entrepreneurial career satisfaction .....	53
Perceived failure .....	53
Passion .....	54
Socio-Emotional Wealth .....	54
3.6 Case Study Delta.....	55
Perceived entrepreneurial career satisfaction .....	55
Perceived failure .....	55
Passion .....	56
Socio-Emotional Wealth .....	56
3.7 Analysis and Discussion .....	57
3.7.1 The relationship between SEW and Entrepreneurial Failure: a model of analysis .....	57
First context (I) – Entrepreneurial Actions.....	58
Second (II) and Third contexts (III) – Success or Failure of a Project .....	60
3.7.2 The Relationship between Passion and Entrepreneurial Failure .....	61
Entrepreneurial Background: the relation between Passion and Psychological Failure .....	61
Entrepreneurial Behavior: What happens after Psychological Failure .....	63
3.8 Limitations and future research .....	65
4. CHAPTER .....	67
<b>ENTREPRENEURIAL FAILURES: BEHAVIORS AND INSTITUTIONS .....</b>	<b>67</b>
4.1 Introduction.....	67
4.2 How Entrepreneurial Orientation in Family Firms affects Failure.....	67
4.3 Fondo Serenella .....	71
4.4 Social Stigma and Personal Stigma: a general overview.....	72
4.4.1 Entrepreneurial Failure and the <i>weight</i> of stigma.....	72



Typology of stigma .....	73
Typology of Stigmatization Process .....	73
4.4.2 Personal Stigma and Personal Experience of Stigmatization Process .....	73
Perceived stigma .....	74
Experienced stigma .....	74
Self-stigma .....	74
The Personal Stigmatization Process .....	75
4.4.3 Actors of Social Stigma and the Social Stigmatization Process .....	76
4.4.4 Determinants of Social Stigma .....	78
5. SOURCES.....	81
<b>REFERENCES .....</b>	<b>81</b>
5.1 Scientific articles and books .....	81

## TABLES, BOXES & FIGURES

Figure 1	Configurations of entrepreneurial failure (Khelil, 2016, p.76) .....	15
Figure 2	Khelil's model .....	18
Figure 3	Configurations of entrepreneurs abandoning .....	24
Figure 4	Family performance .....	28
Figure 5	A sketch of an emotion-based entrepreneurial process in a family business .....	38
Figure 6	Objectives underlying the preservation of SEW and their expected behavior .....	48
Figure 7	Three contexts where a family member may perceive failure .....	58
Figure 8	Full mediation model - Passion .....	61
Figure 9	Family member's decision – the relation between the level of grief and person's behavior .....	65
Figure 10	A sketch of an opportunity-based perspective of family business interactions .....	70
Figure 11	Full mediation model - EO .....	70
Figure 12	A process of entrepreneurial failure stigmatization and transformation .....	76
Figure 13	Model for the development and diffusion of stigma arising from firm's failure .....	78
Table 1	Deterministic, voluntarist and emotive approach: a comparison .....	11
Table 2	Khelil's model .....	17
Table 3	Perceived failure: results from our explorative study .....	57
Table 4	Passion and Psychological Perceived Failure .....	62

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## INTRODUCTION & SUMMARY

THE REASON OF MY DISSERTATION – Entrepreneurial failure is a topic which developed only in the last decades, in fact before the introduction of this argument, the researchers focused on successful entrepreneurs. Some reasons that allowed the development of the entrepreneurial success than the entrepreneurial failure could be: the difficulty to find financial data about failed entrepreneurs, because most cases are not public; and, according to Bruno, Leidecker, and Harder (1986), usually entrepreneurs may be hesitant to discuss their failure and those who agree to discuss it, not always understand or are able to define the factors that contributed to the failure itself. In the current research, knowing that in the world's economy exist more family business than non-family business, we decided to put together the concepts of entrepreneurial failure with some aspects of the family firm literature such as SEW and Entrepreneurial Passion. All this issues will be analyzed under the leader level of analysis.

FIRST CHAPTER - THE ENTREPRENEURIAL FAILURE: MEANINGS AND DETERMINANTS – in this chapter, our aims were to give a background of the different literatures' approaches used to define entrepreneurial failure; and after, we tried to give a holistic definition of this multidimensional phenomenon. In the end of this chapter, we report some literature background to define what family firm is.

SECOND CHAPTER – FAMILY BUSINESS FAILURE: IN BETWEEN SOCIO EMOTIONAL WEALTH AND PASSION – in this chapter our aim was to supply a literature background under two main issues: the Socio Emotional Wealth (SEW) and the Entrepreneurial Passion. About SEW we discussed what is FIBER model, thus, the SEW dimensions;

we analyzed the concept of flows and stocks of SEW; and we discussed about a new model that discussed about this topic, developed by Shepherd (2017). As regards passion, we explained what it is, how it affects entrepreneurial and the two types of passion that characterize the entrepreneurs: Harmonious passion and Obsessive passion.

THIRD CHAPTER – AN EXPLORATIVE STUDY OF FAILURE IN FAMILY FIRMS – In this chapter, starting from an explorative study, we tried to put the data collected, together all the literature's background developed in the first and the second chapters. In that way, our effort was based on analyzing and giving a more nuanced interpretation of the entrepreneurial failure under family firm's context. Furthermore, we defined and developed propositions that emerged during the analysis of the data collected.

FOURTH CHAPTER – ENTREPRENEURIAL FAILURES: BEHAVIORS AND INSTITUTIONS – In this chapter, we would like to suggest some interesting topics, for future researches, to offer a wider perspective about the model developed in the third chapter. We will start from focusing on the topic of entrepreneurial behaviors and after that we will introduce two issues related to institutions. We take as an Italian example of a formal institution the *Fondo Serenella*. Last topics argued in this chapter are social stigma and personal stigma.

## THE ENTREPRENEURIAL FAILURE: MEANINGS AND DETERMINANTS

### 1.1 Introduction

In the last two decades, the importance that community has given to entrepreneurial failure is rising exponentially. Research is continuously increasing on the subject: if we look for *entrepreneurial failure* on Google Scholar we could find over 3.680 articles published between the 2013 and the 2017. Moreover recently Harvard University has published the site called “The success-failure project has been opened; exploring success, failure, and resilience” that collects resources like videos, quotations and readings. Another important event linked to the subject of failure was *International Day for Failure*. We can find in the site: <http://dayforfailure.com/> many interviews and discussions about this topic.

According to many scholars (Amit and Thornhill, 2003; Knott and Posen, 2005; Peng, Yamakawa and Lee, 2010), the death of firms are ordinary and occur in every kind of industry and market. Failure is an important phenomenon in entrepreneurship processes for its consequences for individuals, organizations and society, due to the fact that the *exit* from the market is an important driver of the evolution of economies and industries. There are many factors that could influence an exit out of the market, but the most important ones depend on business environment characteristics such as uncertainty and complexity.

According to McGrath (1999), when failure occurs, it may lead to a potentially valuable learning opportunity for the founder of the failed business. Therefore, an interesting point of analysis is that failure influences the entrepreneur’s future decisions, strategies

and behaviors. Indeed, not all entrepreneurs react in the same way, and failure may also be a traumatic and emotional experience (Cope, 2011).

However, one of the main problems is the difficulty to find a common meaning of failure. For that reason, the next paragraph is titled *What is entrepreneurial failure? Toward an holistic definition*. Here, it is possible, to allow a clearer understanding, to read the various definitions of entrepreneurial failure that can be found in the literature. The cause of the lack of a common definition is due to many issues. The first one is correlated to the fact that initial research on entrepreneurship focused mainly on success, without considering the high failure rate of new firms, thus precluding a holistic view of the entrepreneurial process (Yamakawa, Peng and Deeds, 2015). Moreover, the lack of a common meaning depends also on the aim of the study of each researcher. Indeed, in the literature, the approach used to define this phenomenon may be: deterministic, voluntarist or emotive; except in the Khelil's definition (2016) that involves all the three approaches. Most of the researchers have been focalized, in their studies, on the firm level analysis, thus they try to find to answer to the question: *What is business failure?*, instead of analyzing a more individual level. Furthermore, they tried to make a definition that allows them to study the causes of business failure and the potential consequences of firm failure for entrepreneurs.

The chapter is organized as follows: first of all, it is possible to find the historical definition of the entrepreneurial failure that is bankruptcy; subsequently, due to the fact that entrepreneurial failure is a multiform phenomenon, the different approaches are embedded into two dimensions (or key elements), *id est* the economic dimension and the psychological dimension. The problem of the many literature definitions of this phenomenon is the adopted locus of control, due to the fact that the researcher considers it as fixed. Thus it is explained, to better understand the above problem, what the locus of control is and after that the holistic definition of Khelil is reported. To guarantee and to achieve a more nuanced holistic definition, the last two paragraphs integrate the Khelil definition with two new issues: the business life cycle, that permits the contextualization of the different configurations of entrepreneurial failure and the entrepreneurial career life course, that permits to better understand the behaviors of failed entrepreneurs. The chapter will conclude with an analysis of the meaning of family firms.

## **1.2 What is entrepreneurial failure? Toward an holistic definition**

There are a lot of definitions that try to define entrepreneurial failure, but none of them give us a complete version. The main difficulty to embed in a unique definition the meaning of entrepreneurial failure is its nature, given by a multiform phenomenon. However, providing a clear and complete definition offers many advantages. At least two are the main ones. An explicit definition allows to make comparisons across studies. Furthermore, in the literature is observable that each author has a different approach, so a different theoretical foundation that characterizes its studies of this subject (Ucbasaran et al., 2012).

### **1.2.1 Bankruptcy: an Historical Definition of Entrepreneurial Failure**

According to the Oxford Dictionary,

«Bankruptcy is a legal proceeding involving a person or business that is unable to repay outstanding debts. The bankruptcy process begins with a petition filed by the debtor, which is most common, or on behalf of creditors, which is less common. All of the debtor's assets are measured and evaluated, and the assets may be used to repay a portion of outstanding debt».

As Zacharakis, Meyer and DeCastro (1999) note, such definition was, and is, already suitable to use for operationalizing failure and for making samples. This definition of business failure aims to underline poor economic performance; moreover, bankruptcy is a clear indicator of a failing firm and an important step towards death.

An example of bankruptcy could be the case of Blockbuster; indeed it wasn't able to withstand online competition through the rise of the digital era (Hill and Gareth, 2013). Its direct competitor was Netflix that initially attacked the US market and after that the UK one.

Nevertheless, this definition has different disadvantages. First, bankruptcy is a too restrictive definition; in fact an entrepreneur could fail also before the bankruptcy occurs and (for example) he/she could take an exit strategy. Moreover, with this definition it is not possible to understand whose responsibility the failure was: the environment's, the firm's or the entrepreneur's?

Furthermore, which is the real cause of failure could not be comprehensive with bankruptcy. In fact, it takes in consideration the phenomena at the end of the entrepreneurial failure process.

### 1.2.2 The Economic Dimension

For the reasons explained above, bankruptcy is not considerable anymore to define this multiform phenomena and it is possible to start understanding firstly the economic dimension that could be the cause of failure and subsequently the psychological one.

In the economic one, the authors could be grouped according to the theoretical foundation utilized. These theories adopted by the researchers are: Population ecology of organizations theory (Aldrich and Fiol, 1994; Hannan and Freeman, 1977; Aldrich and Martinez, 2001), Resource-based view (Cooper et al., 1994; Thornhill and Amit, 2003; Crutzen and Van Caillie, 2008; Michael and Combs, 2008) and Threshold theory (Gimeno et al., 1997; DeTienne et al., 2008; Ucbasaran et al., 2013). Each theory used has a different level of analysis, ranging from the environmental level of the population ecology and the firm level of the resource-based view to the individual one of threshold theory. Hence, the economic reason of failure could be seen by different points of view. In fact, according to Sarasvathy (2013):

«an entrepreneur can fail, yet his or her business can be successfully taken over by another individual. Alternatively, a firm may fail but the entrepreneur behind the firm may go on and run successful firms in the future...».

While the economic dimension has three different levels of analysis, in the psychological one it is possible to find only the individual analysis. The theoretical foundation that helps us to understand the entrepreneurial failure in that dimension is the discrepancy theory.

The different researchers, despite the different points of analysis of entrepreneurial failure, use the economic situation of the firm as a key element to explain their studies. Thus, in each level of analysis (environmental/firm/or individual one), there is always a sort of correlation between the negative economic situation and the failure.



### *Deterministic Approach*

Starting from the environmental level of analysis, the approach used by Mellahi and Wilkinson (2004), is also called *Deterministic Approach*. Here, the failures are due mainly to involuntary exit; thus, failure is caused by external factors over which entrepreneurs have no possibility of control, so he/she doesn't has any fault. They become a sort actor spectator (Danjou, 2002). As Carter and Wilton (2006) note, without appropriate financial, regulatory, legal, economic and political environment that permits the development and the growth of enterprises, firms will fail. The environmental conditions and ecological factors (for example: Industry Life Cycle) define the constraints that doom firms to failure (Mellahi and Wilkinson, 2004). Therefore, according to Thornhill and Amit (2003), there is a sort of selection of firms in which a key role is played by the evolution of the environment. As Morgan (2006) notes, if the firm wants to survive, it is essential to achieve an appropriate relationship with the environments.

When researchers adopt this theoretical approach, they implicitly assume that if a firm survives (have a positive economic performance) that means that it is a successful firm (Cooper et al., 1994); while all the other bad economic situations that bring to mortality, closure, exit, discontinuity, disappearance and so on, are all considered failure (Wennberg, 2011). The main weakness of this approach is not what it examines but what it does not consider. Putting all the attention to external factors, they forget to analyze the cases where firms in the same industry facing the same environmental constraints fail while others succeed (Flamholtz and Aksehirli, 2000). So, the internal factors could better explain and give a wider definition to entrepreneurial failure. Moreover, assuming that exit and failure are equivalents is unrealistic due to the fact that some firms could close for venture success's reasons (Wennberg, Wiklund, DeTienne & Cardon, 2010). In fact, an exit choice could be affected by a wide variety of reasons and, according to DeTienne (2014):

«...the exit of the entrepreneur from a firm is not a sufficient criterion for entrepreneur to have experienced failure...»

An example, based on success motivations of exit choice, is WhatsApp: the sale of this business to Facebook provides a clear instance of a profitable business exit.

The following approaches to failure don't reply to the question "Why do some entrepreneurs fail despite the fact that they possess and control rich resources?" (Khelil et al., 2012) like the deterministic approach does, but they utilize different assumptions and they offer other complementary perspectives.

### *Voluntarist Approach*

In the level of analysis of the firm, the approach used is also called *Voluntarist Approach*. This perspective rejects the assumption that entrepreneurs like managers of a firm are powerless and affirms that poor decisions and careless actions taken by managers can lead to the firm's negative performance and ultimately to failure (Mellahi and Wilkinson, 2004). Furthermore, as Van Gelder et al. (2007) note,

«Entrepreneurs that typically failed is due to a reactive, rather than detailed, long-term, planning strategy»

Another important issue that he highlights are the fundamentals reasons that firms failed; these are: entrepreneur's mistakes and/or entrepreneur's lack of skills (Cardon et al., 2011). Indeed, entrepreneurs by mobilizing their firms' resources they can avoid failure. Different meanings of entrepreneurial failure are linked to resource-based view, such as:

- Business Failure (Crutzen and Van Caillie, 2008);
- Financial Distress (Van Gelder et al., 2007);
- Insolvency (Shepherd, 2003); and so on.

This approach considers that a correlation exists between performance of the firm and the resources which it owns and controls (Barney, 1986); thus the initial resources that entrepreneur has are the key elements that have an influence on the survival of the company. Smida and Khelil (2008) call *liability of newness* the constraint toward entrepreneurs that have low level of resources or have difficulties to access the vital resources that increase their probability of failure.

Conforming to Shepherd's (2003):

«Business failure occurs when a fall in revenues and/or a rise in expenses are of such a magnitude that the firm becomes insolvent and is unable to attract new debt or equity funding; consequently, it cannot to operate under the current ownership and management».

So for insolvency, these researchers intend the impossibility for an entrepreneur to control and to manage his or her financial balance sheets resulting in an increase of debt with insufficient income to cope with financial repayments. However, another similar definition is defined by Coelho and McClure (2005) indeed, failure's definition could be seen like a mix of three components. First of all, the rate of dynamicity and growing of the market. Secondly, with regards to the capacity of the entrepreneur to admit mistakes; an entrepreneur who can admit his own mistakes has a higher probability to avert disasters. An historical case of a firm showing how crucial is this point is the case of Ford Company steel mills: what happened was that the entrepreneur of the business at first didn't realize that it was too costly to maintain the business itself. When he realized this fact and recognized his failure, he outsourced this firm's division, thus saving it. The third and last component is the trade-off between the costs and the benefits; if this combination is not socially desirable then insolvency of a business occurs.

The above definitions used as criteria to define failure an objective firm level; thus, the economic dimension of voluntarist approach allows us to understand that the exit decisions of entrepreneurs is mainly due to the poor economic performance of their firms caused by a lack of the firm's resources or the entrepreneur's ones (Wennberg et al., 2010).

Another criteria that can be used to define entrepreneurial failure is the subjective firm level. This criteria rely on the entrepreneur's evaluation of firm performance at the time of exit (Gaskill et al., 1993; Headd, 2003) and it helps to differentiate firms disappear due to poor performance with firm that shut down due to other reasons. According to Bates (2005), these firm's exits may be seen as *negative* or *positive* as they are at the choice of the entrepreneur. Under this criteria, may be embedded also the concept of persistently underperforming firms, also if many researchers see it have a negative impact on economic development (called also, destructive entrepreneurship) or in terms of resources destruction (DeTienne et al., 2008).

The last level of analysis rejects the typical question of the firm's one, that is "Why do some entrepreneurs fail despite having a substantial opportunities to develop their business?" and try to reply to "Why do some entrepreneurs fail despite their skills and opportunities offered in the context of creation?"

### *Emotive Approach*

The *Emotive Approach* is characterized by the individual level of analysis. However, despite the Deterministic Approach and Voluntarist Approach, it includes two dimensions: one Economic and the other Psychological. This approach gives high importance to the role of entrepreneur's motivation, commitment and aspiration to explain why there exist cases where entrepreneurs create well-performing firms despite the shortage of resources or where entrepreneurs choose to persist with underperforming firms despite the lack of resources. There are different reasons that motivate people to set up a business such as: economic gain, contribution to community welfare, emulation of role models, improved social status, opportunity to innovate and create new products, personal development and desire for control, independence and achievement (Shane et al., 1991; Birley and Westhead, 1994; Carter et al., 2003; Cassar, 2007; Wu et al., 2007). Different entrepreneur's motivations have different effects on entrepreneurs actions after failure such as persistence or exit behavior. So according to Cardon et al. (2005), having an intrinsic motivation, differently from an extrinsic one, may explain a persistent behavior due to the fact that they are more able to sacrifice current needs looking at future rewards (future orientation issue). In fact, intrinsic motivation involves a personal interest in the task, thus including self-development and self-actualization, while the extrinsic motivation is characterized by an external reward that induces entrepreneurs to adopt a certain behavior (Perwin, 2003). However, they are not mutually exclusive, so they may affect the behavior of the entrepreneur altogether (Velnampy, 2009). Moreover, the analysis at the individual level explains also the cases of, according to the resource-based view, firms that find themselves in a situation of success but the entrepreneurs decide to exit without gaining from this decision.

In this paragraph we're going to analyze the economic dimension of this last approach and in the following subparagraph we will dive a little deeper into the psychological dimension.

Starting from the economic point of view, the criterion used to evaluate firms relies on unmet expectations; this criterion used is also called objective individual level criterion. In the *Threshold Performance Theory*, McGrath (1999) states that entrepreneur's human capital influences the minimum performance level he/she is willing to accept. So, if the firm's performance falls below the minimum level, the entrepreneur will opt for the exit choice. The stronger the skills and human capital, the higher the threshold levels; thus, given the same level of performance the choice to be in a case of success or failure depends on the level of human capital and skills that entrepreneurs have. This implies that a firm, *ceteris paribus*, may be considered by an entrepreneur to be a successful firm and by another as an unsuccessful one (Gimeno et al., 1997). We can understand how the economic dimension, according to that theory, is important not in terms of real profitability of the business but in terms of level of performance to make choices (DeTienne et al., 2008). Thus, this conceptualization of failure highlights personal perceptions of the entrepreneur that are characterized by the entrepreneur's benchmarks and his/her expectations. Hence, this kind of definition may consider the cases of failures where the entrepreneurs fail and the firm does not, creating a sort of wider failure definition than the failure's firm aspect (Gimeno et al., 1997).

As McGrath note (1999),

«Failure is the termination of an initiative that has fallen short of its goals».

In the recent literature, Ucbasaran et al. (2013) introduce a more complete definition of entrepreneurial failure, which explicitly includes the economic criteria (Table 1).

«the cessation of involvement in a venture because it has not met a minimum threshold for economic viability as stipulated by the entrepreneur».

*Table 1 Deterministic, voluntarist and emotive approach: a comparison*

DETERMINISTIC APPROACH	VOLUNTARIST APPROACH	EMOTIVE APPROACH
Environment level of analysis	Firm level of analysis	Individual level of analysis
Population Ecology of organizations theory as theoretical foundations used	Resources-Based View as theoretical foundations used	Threshold Performance Theory as theoretical foundations used
Failure is caused by environmental factors	Failure depends on the new venture's availability and control of the resources	Failure depends on the entrepreneur's determination and motivation

Source: our elaboration

### 1.2.3 The Psychological Dimension

The emotive approach, like we have discussed above, is formed also by psychological dimension that rely on a subjective individual level criteria in other words that criteria is based on the personal considerations and implications of failure (Singh et al., 2007). The theoretical foundation used to explain entrepreneurial failure is the discrepancy theory that introduce the concept of “entrepreneurial satisfaction” as a way to measure individual entrepreneurial success that could have an impact on his/her decision to persist or exit from the firm (Cooper et al., 1995; Carree and Verheul, 2012). It is true that this theory incorporates the economic dimension (like the threshold theory) but it takes into consideration also the non-economic factors related to the entrepreneur’s disappointment. An example may refer to the family business factor, especially when the families may own and run more than one firm simultaneously (Sieger, Zellweger, Nason & Clinton, 2011). In a situation where a family member, running a business, potentially damages the reputation of the family or portfolio of firms, he/she views himself/herself as having failed. So this disappointment may negatively affect the current and future family relationships and their role within the family (Shepherd, 2009). Furthermore, according to Singh et al. (2007), firm failure could extend to family members, for example it has been proved that often entrepreneurial failure coincides with divorce. To better understand the entrepreneurial behavior after failure, it is useful to highlight that the entrepreneur’s motivation may change throughout his/her life (Locke & Latham, 2002), due to a change of the context/environment. However, this realignment of motivation is not always considered by him/her, supporting the old behavior by habit (Archer, 2003).

*Entrepreneur’s household life course* is one of the many dimensions, that characterize the context and its dynamicity, which affect entrepreneur’s behavior. As Jayawarna, Rouse, Kitching (2015) note, under this dimension, the main factors that induce a change are: the *marital status*, *working hours*, *childcare responsibilities*, the *working from home* and the *living costs*. An example may be becoming a parent; indeed, when the entrepreneur becomes a parent, his/her motivations change in a way that may create disappointment toward his/her entrepreneurial career, due to a desire to reduce business commitments to fulfill care responsibilities (Rouse et al., 2006).

Moreover, it is easy to understand that entrepreneur's satisfaction levels are negatively correlated to the existence of a gap between the actual reward or performance and the individual's goals or expectations (Cooper et al., 1995). The higher the gap perceived by the entrepreneur, the lower the satisfaction level and if he enters into a psychological state of disappointment, in the case of absence of moral and emotional support, he/she may decide to take the exit decision. Two interesting dimensions about the "discrepancy theory" are the *goal-achievement gap theory* and the *expectation-reality gap theory*. In the first dimension, as Cooper notes (1995), in the cases of a lower level of a firm's performance, if the goal of entrepreneurs are based on non-economic motivations, his/her satisfaction level will be higher than others who are driven by initial economic motivation. Thus, entrepreneurs with non-economic motivation are less affected by the goal-achievement gap and consequently are more likely to persist with underperforming firms. The expectation-reality gap theory says that the level of satisfaction will be higher in the case of high initial expectation.

### **1.3 The Locus of Causality**

To understand what the phenomenon of entrepreneurial failure is a key component to determine what is/are the cause/s of failure (Wagner and Gooding, 1997).

In the literature the approaches used by researchers are characterized by a fixed and certain attribution of failure under the aspect of locus of causality.

Even if, the concept of locus of causality is based on people's belief about the source of the cause/s of failure that could be internal or external (Rotter, 1966; Weiner, 1985; Cardon et al., 2010). Thus, the main difference between considering the locus of control certain or uncertain is to define the entrepreneurial failure as an entrepreneurial phenomenon (like is used by the approaches described above) or as a multiform entrepreneurial phenomenon (like may be used to define a holistic definition).

Following Martinko et al. (2006), *internal locus of control* emerges when people believe that failure may be the result of a lack of abilities (skills) or personality or motivation, whereas the *external locus of control* appears if people believe that failure is due to luck or environmental constrains.

Under the economic and the psychological dimensions:

- the deterministic approach defines that the reason why the phenomenon of entrepreneurial failure exists is linked to external factors (environmental constrains);

- the voluntarist approach and the emotive approach attribute the cause of entrepreneurial failure to internal factors such as lack of human resources or lack of motivation.

Instead, to understand and to achieve an holistic definition of entrepreneurial failure, we have to consider two dimensions: the *individual attribution* and the *society/collective attribution* of failure. Attribution theory describes how people explain self-behavior and other people's behavior (Martinko et al., 2006). According to Douglas et al. (2008), the type of attribution used by entrepreneurs for failure will impact their cognitive, affective and behavioral response to failure.

Failed entrepreneur's attribution has three dimensions (Weiner; 1985): *locus of causality* (that, differently from the literature, is not fixed), *perceived controllability* and *perceived stability* of the cause of failure that explain why some decide to exit while others persist with failure. Furthermore, the decision of the entrepreneur to exit or persist with failure depends also on the degree of emotional damage when the failure occurs. In fact, according to Shepherd et al. (2009) failures may generate different amounts of grief and the strength of negative emotional reaction depends on the typology of loss and on the entrepreneur's needs. In fact, an external locus of control may lead to a lower level of shame and guilt. Moreover, another factor that determines the entrepreneur's decision (exit or persistence with failure) is his/her level of psychological capital. Indeed, it may create a buffer that protects the failed entrepreneur from the negative emotions through its ability to restore optimism and confidence after stressful experiences (Luthans et al., 2006).

Collective attribution of failure toward entrepreneurs, instead, is affected by the extent of social stigma and by the extent of attributional biases that may reduce the accuracy of attributions (such as fundamental attribution theory and actor-observed effects).

#### **1.4 The Holistic Definition of Entrepreneurial Failure**

Integrating the two dimensions just presented we could observe that factors that may be responsible for entrepreneurial failure are: environmental constraints, the lack of resources, the lack of entrepreneur's motivation and determination. Combining these factors it is possible to obtain different configurations of failure therefore as Khelil notes (2016, p.76), entrepreneurial failure may be defined as:



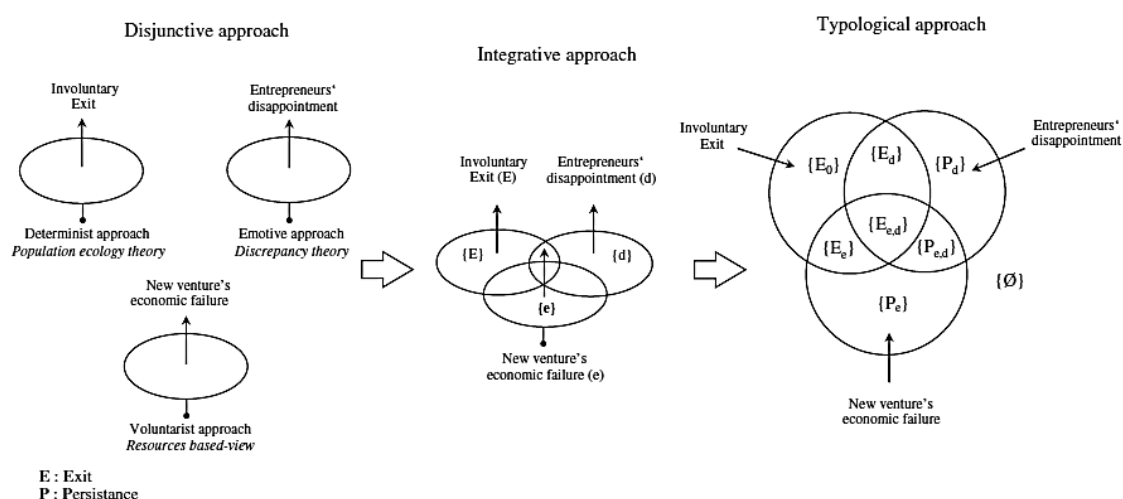
«psyco-economic phenomenon characterized by the entry of a new venture into a spiral of insolvency and/or the entrepreneur’s entry into a psychological state of disappointment»

However, Khelil admits two aspects of failure: persistence failure and exit on; that he later develops into eight different theoretical configurations. Indeed, exit choice will be adopted only

«in the absence of economic and/or psychological support»

In the Figure 1, we could see how each configuration of failure are characterized.

Figure 1 Configurations of entrepreneurial failure (Khelil, 2016, p.76)



Configurations of entrepreneurial failure (Khelil, 2016, p.76)

So, according to Khelil (2016), the different typologies of entrepreneurial failure are the following ones.

### Total Failure

In this configuration we have an exit choice of entrepreneurs due to the fact that there are both resource destruction and the entrepreneur’s disappointment. This configuration is equivalent to the concept of insolvency that leads to bankruptcy (Zacharakis et al., 1999).

### *Zero Failure $\{\emptyset\}$*

In this context entrepreneurs create firms with huge growth and the business's performance allows to satisfy both economic and psychological expectations of the entrepreneurs;

### *Persistence with failure*

This typology might be split in:

- *Persistence with an economically failing firm  $\{Pe\}$* , in this context the entrepreneur faces a poor performance level, but he/she is satisfied due to the fact that he/she achieves his/her initial aspiration. So, entrepreneurs are motivated by non-economic issues like status, social acceptance or power (Carsud et al., 2011). Resources are used by entrepreneurs to achieve their personal aims rather than to ensure the success of the firms;
- *Persistence with an entrepreneur's disappointment  $\{Pd\}$* , in this context entrepreneurs have high performance firms, but they are in a state of disappointment due to the fact that they haven't measured up to the initial expectation. Here the entrepreneurs' motivations are non-economic and according to Amit (et al., 2001) these could be: (A) the desire for independence, (B) the work-family balance and (D) the need for achievement;
- *Persistence with economic and psychological failure  $\{Pe,d\}$* , this configuration represents all the cases with poor economic and psychological dimensions (underperforming firms) but rather than exit, entrepreneurs decide to persist because they made a considerable investment in terms of resources, time, energy, emotions and effort. In that configuration we can also find the cases where entrepreneurs continue to invest their financial resources to delay the exit decision (Shepherd et al., 2009);

### *Exit attributable to failure*

This typology might be split in:

- *Exit caused by the new venture's economic failure  $\{Ee\}$* , this configuration refers to the cases where initial expectation is achieved but at the same time, the goals of entrepreneurs are linked only to personal benefit rather than to ensure the survival of the firms;

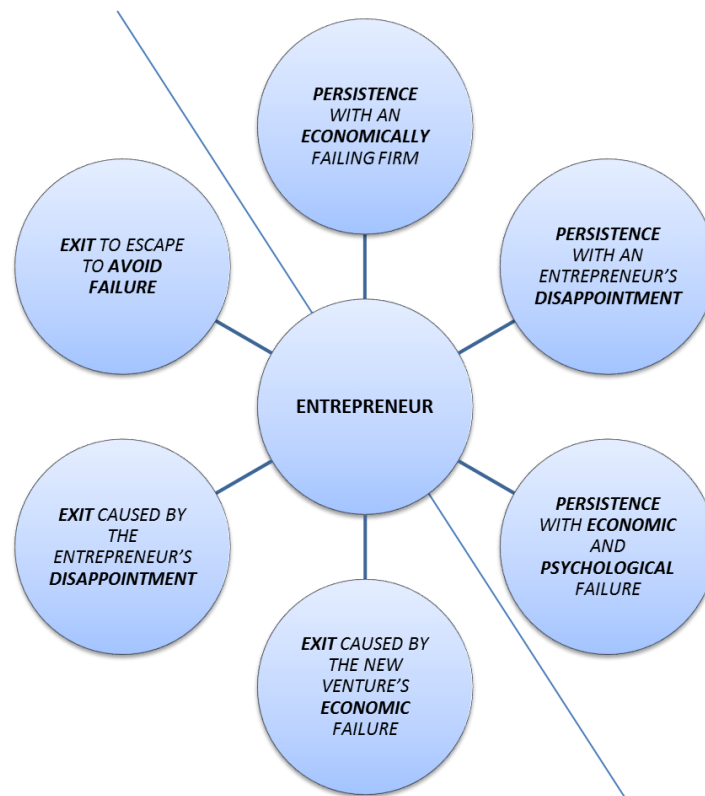
- *Exit caused by the entrepreneur's disappointment* {Ed}, this typology consider the cases of well performing firms. The exit decision is taken by entrepreneurs because they don't achieve to their initial expectation that may be characterized by economic motivations (Ucbasaran et al., 2010) or by non-economic motivations for examples entrepreneurs have lost of their autonomy ,or they don't find an equilibrium between work and family life;
- *Exit to escape to avoid failure* {E0}, this profile describes the cases in which entrepreneurs to avoid failure due to the accumulated loss, look for a way/strategy to exit (Headd, 2003). So, failure-avoidance strategies are justified to reduce and/or limit the financial costs of business failure and/or for fear of experiencing the negative emotion attached to business loss. As Shepherd (et al., 2009) notes, some entrepreneurs may decide to maximize their recovery of emotional and financial resources for future possible reinvestment in another business.

Table 2 *Khelil's model*

ADOPTED STRATEGY	ECONOMIC FAILURE	PSYCHOLOGICAL FAILURE	ECONOMIC AND PSYCHOLOGICAL FAILURE
<i>Persistence</i>	Persistence with an economically failing firm	Persistence with an entrepreneur's disappointment	Persistence with economic and psychological failure
<i>Exit</i>	Exit caused by the new venture's economic failure	Exit caused by the entrepreneur's disappointment	Exit to escape to avoid failure

Source: adapted by Khelil (2016)

Figure 2 *Khelil's model*



### 1.5 Toward a more nuanced definition of Entrepreneurial Failure: Business Life Cycle and Entrepreneurial Career Life Course

The Khelil's definition of entrepreneurial failures goes to define the different configurations of failure without considering the context of the individual-environment relationship.

Khelil's approach, to analyze and to define entrepreneurial failure, was based on new ventures; mainly because they are characterized by independence, newness and smallness. However, to achieve a wider meaning of entrepreneurial failure, it is also interesting to consider the life cycle of businesses, indeed failure can touch new firms as well as old ones.

Moreover, to better understand behaviors and decisions of entrepreneurs, to exit or persist after entrepreneurial failure, it is also interesting to consider the career life course; thus the typology of entrepreneurs. Considering the case of a novice entrepreneur, the career life course highlights, for example, the need of independence of people that chose to leave employment experience to engage in entrepreneurship (Mallon and Cohen,

2001), but this doesn't guarantee that they will have the knowledge usually attributable to an entrepreneur to avoid failure and, at the same time, the entrepreneur's independence need, may explain why they decide to persist with failure: *Persistence with an economically failing firm*. Thus, these issues may allow us to understand which are the motivations and the reasons that affect each entrepreneur.

### 1.5.1 Business Life Cycle

In this paragraph, the different phases of business life cycle and the related main reasons of failure will be considered. In the literature, different meanings and models of life cycle of firm are identified (Quinn and Cameron, 1983). Utilizing the model of Miller and Friesen (1984), the life cycle consists in five phases: birth, growth, maturity, decline and revival. Each step is measured in time and age increases through these phases, however, more generally this model considers that each phase lasts six years. It is possible to split the life cycle of firm in two clusters: *new venture*, which considers only the birth phase and *old venture*, which consider all other phases.

Furthermore, to identify a more nuanced configuration of entrepreneurial failure, it is possible to combine the two clusters of business life cycle with the six clusters of entrepreneurs divided by motivation. These combinations permit to highlight which dimension (economical or psychological) the entrepreneur is more affected by and also allow to define the extent to which the cost of failure affects their behavior.

#### *New Venture*

This cluster considers the same firms that are considered in the paper of Khelil and, according to Stichcombe (1965), the main causes that make young firms fail more than the older ones are organizational problems such as conflicts between employees caused by a non-clear role, lack of experience (Lamontagne and Thirion, 2000) and lack of resources (Smida and Khelil, 2008). Lack of experience is one of the major causes for failure of a firm (Douce, 2005), thus the probability to fail decreases after this stage due to the fact that during the years the knowledge of entrepreneurs increases. Important entrepreneurial traits that an entrepreneur should have in this phase to avoid failure are opportunity recognition and self-efficacy. While the ability of opportunity recognition is essential to create a potentially profitable business, self-efficacy is not an obvious trait

that entrepreneurs should have in this phase. Indeed, it describes optimistic self-beliefs to cope with the difficulties to open new ventures and with potential failure (Dej, 2007). These problems considered by Stichcombe (1965) take into consideration only the economic dimension of entrepreneurial failure, however it is important to highlight that there are many other problems that don't involve the previous causes but consider other ones that may belong to the economic or psychological dimensions, for example the lack of motivation and so on.

### *Well-established Venture*

This cluster considers all other the phases of a business life cycle that are characterized by many other reasons of entrepreneurial failure. The causes may be (Imen, 2012): bad adaptation to the evolution of the environment, mismanagement, fierce competition, economic crisis, lack of creativity and innovation, lack of skilled and productive labor, international competition. According to Amit et al. (2003):

«The failure of the older companies would be caused by a bad adaptation of the resources and competences to the strategic characteristics of the business sector».

Important traits that entrepreneurs should possess to avoid failure or that induce to persist with failure are: during growth phase, the tolerance of risk and the need for achievement, whereas during the phases of maturity and decline it is the learning orientation.

### *Entrepreneurs Cluster's Motivation*

Entrepreneurs may be embedded in different clusters each one of which is characterized by a peculiar motivation (Jayawarna et al., 2016). The six clusters of entrepreneurs are:

- *Reluctant Entrepreneurs*, this group is composed by entrepreneurs that engage in the entrepreneurial career for necessity, in fact they are characterized by the entrepreneur's need to give himself/herself and to his/her family security or the entrepreneur's aim to realize his/her dreams. This cluster is composed mainly by young people with few employment prospects, and they usually make a low personal investment but at the same time they make a high time commitment;
- *Convenience Entrepreneurs*, this group of entrepreneurs are identified by the flexibility motivation of operating their business around other life pursuits such as fami-

ly. They are mainly working class, young mothers who prefer to manage their business from home and for that reason that prefer to make low time investment in their business;

- *Economically Driven Entrepreneurs*, this cluster contains all the entrepreneurs that are characterized by the needs to achieve and create a high level of profitability. They are usually educated young fathers with some childcare responsibility, and they make high debt investment;
- *Social Entrepreneurs*, are all the entrepreneurs that aim to create value to their community. They are composed mainly by older, educated people, and they make high investment in terms of time;
- *Learning and Earning Entrepreneurs*, in this group it is possible to find entrepreneurs motivated by achievement needs, in particularly the opportunity to learn and to respond to the challenges of entrepreneurial career. In fact, they are characterized by high risk taking and learning propensities, moreover they make high investment in terms of time;
- *Prestige and Control Entrepreneurs*, the motivation that potentially characterize this cluster of entrepreneurs is the power to control and the high level of status that entrepreneurial career potentially may offer them. They are older, educated men which make high debt investment.

### *Contextualization of Khelil's Configurations of Entrepreneurial Failure*

Combining the different business life cycle with the entrepreneur motivational cluster and the Khelil's configuration (2016), it is possible to find these results:

- *Persistence with an economically failing firm {Pe}*, in this configuration it is possible to find a new venture and old venture with an economic reason (eg. lack of resources, bad adaptation of the resources) that firm fail, managed by the following cluster of entrepreneurs: Learning and Earning entrepreneurs, Prestige and Control entrepreneurs and if the community approve the activity of the entrepreneur is possible to find also Social entrepreneurs;
- *Persistence with an entrepreneur's disappointment {Pd}*, in this configuration it is possible to find a context characterized by both cluster of business life cycle but there is a psychological disappointment that affects: Convenience entrepreneurs, for

example due to the fact they need more time to stay with their family; Social entrepreneurs, where the main reasons of this disappointment are the non-acceptance of their activity by their community or the perception of value destruction for the community of their activity; and, Prestige and Control entrepreneurs, where this disappointment is originated for example to a loss of control due to a merger with another company.

- *Persistence with economic and psychological failure* {Pe,d}, this configuration embeds the two business cycle clusters in which firms are run by Economically Driven entrepreneurs or Reluctant entrepreneurs, Social entrepreneurs or Prestige and Control entrepreneurs. The persistence behavior, despite failure involve both the economic and the psychological dimensions, is due to high investment in terms of time, effort or money;
- *Exit caused by the new venture's economic failure* {Ee}, this Khelil's configuration will be renamed for obvious reasons *Exit caused by the venture economic failure*. In this configuration it is possible to find new ventures and old ones runs by reluctant entrepreneurs and Economically driven entrepreneurs;
- *Exit caused by the entrepreneur's disappointment* {Ed}, this configuration involve all the business life cycle where firm may be runs by Convenience entrepreneurs and Social entrepreneurs.

### 1.5.2 Entrepreneurial Career Life Course

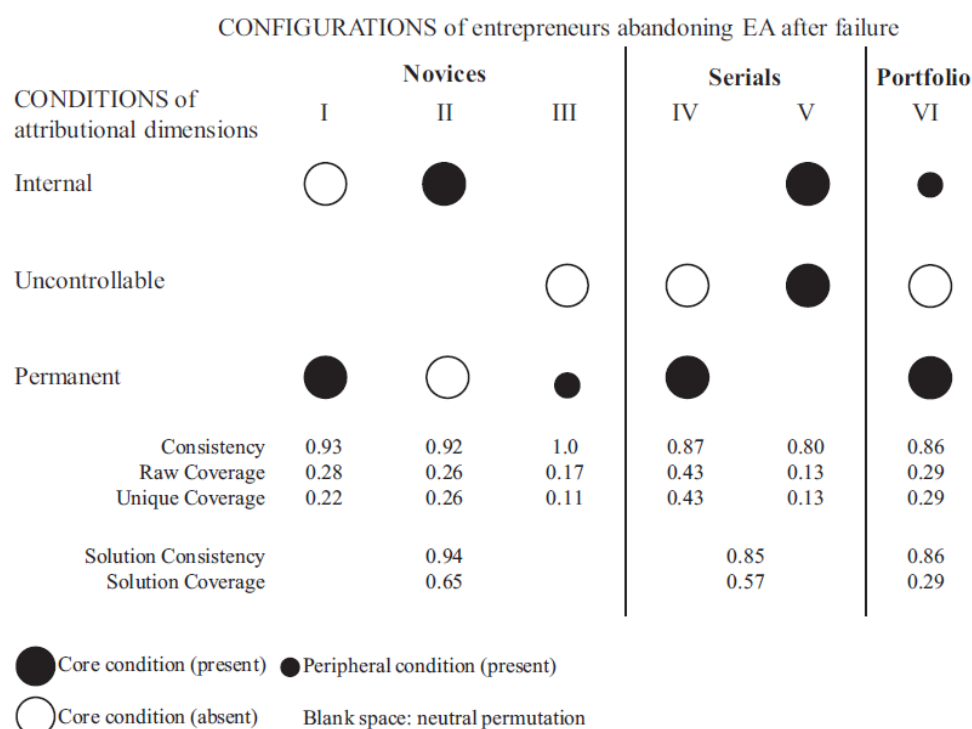
In the entrepreneurial career life course it is possible to identify three typology of entrepreneur that are: *Novice Entrepreneur*, this typology describes entrepreneurs that engage for the first time to an entrepreneurial activity before business failure; *Serial Entrepreneur*, this typology defines entrepreneurs with one or more experiences of entrepreneurial failure; and *Portfolio Entrepreneur*, this last typology defines entrepreneurs that run simultaneously two or more business when entrepreneurial failure occurs (Mandl et al., 2016).

The aim of these divisions is to highlight the reasons of the adopted behavior and decision to exit or to persist from entrepreneurial activities by entrepreneurs when failure occur. According to Mandl et al. (2016), the three elements that potentially explain entrepreneurs abandoning of entrepreneurial failure are: locus of control, perceived controllability and perceived stability of the cause of failure; and these three elements affect



to each entrepreneur typology in different way. In the Mandl et al. study (2016), it is possible to find six different configurations (like we can see in Figure 3) characterized by different pattern, so different conceptualization and interpretation of failure's causes, that induce them to take exit decision. Taking into account the case of novice and serial entrepreneurs the permanent but controllable events may explain why exit decision is taken; while for portfolio entrepreneur configuration, the key issue that defines the abandoning of entrepreneurial career is the perception of enduring event, that is perceived by them like their inability to create a sustainable business. Typical issue of serial entrepreneurs is the behavior to exit from the entrepreneurial career in the cases they attribute to themselves the cause of failure and in the cases where they perceive uncontrollable the failure events. While for the novice entrepreneurs, the locus of control may affect both the cases of internal or external one, but they place higher importance to the permanence or variability perception of failure events. Thus, in the Mandl et al. configurations (2016) is possible to identify the behaviors of entrepreneurs, indeed, when it is absent the key element that induce more to an exit decision, the entrepreneurs is induced to persist or exit and to restart a new entrepreneurial activity. The difference to persist and exit and restart is based by the economic and psychological dimension that affect the entrepreneurial decisions and depends on also by the cost of failure in terms of stigmatization (Figure 3).

Figure 3 Configurations of entrepreneurs abandoning



Source: Mandl et al. (2016)

## 1.6 Entrepreneurial Failure of the Family Firms

We'd never considered above, that family firm may be affected by entrepreneurial failure, until now. In fact entrepreneurial failure occurs not only to non-family firms, but also in family firms the phenomenon of entrepreneurial failure may occur. Therefore, to better understand the cause that involve this phenomenon, we'll go to use two different level of analysis which are based on family business literatures: *firm level* of analyzes and *individual level* of analyzes. Thus, at firm level is possible to identify which is "the family" context in terms of business performance and family dimension; while the individual level, allows us to understand, according to emotional approach, the reasons of a potential entrepreneurial failure.

### 1.6.1 What Family Firms are

There are a lot of definition that try to define family firms, but none of them give us a definition that fully captures their intrinsic diversity. The main difficulties to embed in a unique definition the meaning of family business is its nature, in fact family firms are multidimensional due to the different: size, cultures, life cycle and nature of economic

activity and the different roles that they assume in terms of: employment, income generation and wealth accumulation (Colli and Rose, 2008).

According to Family Firm Institute, in the literature is possible to find different meanings of family business, such as: Miller, Le-Breton Miller, Lester, Canella one (2007), where they defined like key driver, of their definition, the importance of the figure that family members own as *major owners* or *managers*.

«Family firms are those in which multiple members of the same Family Firms are those in which multiple members of the same family are involved as major owners or managers, either contemporaneously or over time»

Differently from Miller et al., in the Sciascia and Mazzola (2008) definition, family members must be *involved in ownership and in management* positions while in Chua, Chrisman and Sharma (1999) definition of family firm, the key driver is the creation of a business *sustainable across generations*.

A working definition that will be used to define family business is the Poza, Alfred and Maheshwari one (1997). They defined family business as a mix of three elements: *Property*, that means that family members have the ownership control (higher than 15%) and the involvement by two or more members of a family or a partnership of families; *Control*, that is the combination of the risk preferences and the strategic direction of the family members on the management of the business; and, *Kin*, that is characterized by culture which it will go to define family relationships and the opportunity of continuity across generations.

Furthermore, an important difference between family business with non-family business, is the concept of *duality of goals* (emotional goals and financial goals) that will go to affect a set of key organizational choices concerning:

- business venturing,
- firm strategies,
- corporate governance,
- management process,
- stakeholder relations (Gomez Mejia, Cruz, Berrone and DeCastro, 2011).

In other words, what makes family business different from the others are Socio Emotional Wealth (SEW) trade-off issues, which mean that the family owners frames each potential problem with SEW reference point (estimation of potential socioemotional losses or gains) and the family owners dilemma concerning SEW and financial wealth (Gomez Mejia, Patel and Zellweger, 2015).

### 1.6.2 Firm Level of Analyzes

Starting from Sharma's matrix (Figure 4) it is possible to have a general idea of the family firm's context which may identify and highlight the reason/s that may lead family firm's members to the phenomenon of entrepreneurial failure. The matrix is useful to analyze at firm level if entrepreneurial may occur putting together family dimension with the business one, so, identifying family firm's performance. The four different family firm's context could be:

#### *Warm Hearts with Deep Pockets*

This situation characterizes the family business which experience profitable business and family harmony. They enjoy high level of SEW and of stocks of financial capital which may support the family members and the business in through turbulent emotional and economic times. In this context, entrepreneurial failure may occur at individual level and utilizing Khelil's configurations (2016) the typology of failure that may occurs could be:

- zero failure or persistence with an entrepreneur's disappointment or
- exit caused by the entrepreneur's disappointment.

#### *Pained Hearts with Deep Pockets*

The firms achieve business success, so they have objective positive performance, however, they are characterized by tension at the family relationships creating discontent and conflict. Thus, this typology of family firm has high level of stocks of capital but a low level of SEW. Moreover, according to Olson, Zuiker, Danes, Stafford, Heck and Duncan (2003), relational issues are the key elements to guarantee the sustainability and the success of family firms, this because, a good level of SEW can overcome bad business decisions while the opposite situation is more difficult to achieve. Similarly, to the previous case, the typology of entrepreneurial failure are:

- persistence with an entrepreneur's disappointment or
- exit caused by the entrepreneur's disappointment.

#### *Warm Hearts with Empty Pockets*

In this context, family firms enjoy strong SEW but their business is characterized by low performance. Thanks their accumulated stocks of emotions, they potentially endure over time despite their poor performance; thus, in other words, it represents the typology of *persistence with an economically failing firm*. It is important to highlight that context, at individual level, as will be discussed in the following paragraphs, may be characterized also by a psychological disappointment that is represented in the configuration of *persistence with economic and psychological failure*. Thus, higher will be the level of SEW and the harmony between family members, higher will be the probability that family members tends to persist in business endeavors despite poor performance. In fact, higher will be the emotional stocks' investment into the business, higher will be the importance of the firm for family members; thus, persistence with poor performance will be more preferable either than failure option, this because, if occurs, will generate high level of grief (Shepherd, 2017). However, for long periods this situation may collapse, causing conflicts between family members, thus, stress in family relationships, inducing the family owners to take an exit choice (Sharma, 2004), so, utilizing Khelil's configurations terms, this could be the case of:

- exit caused by the new venture's economic failure or
- exit to escape to avoid failure.

#### *Pained Hearts with Empty Pockets*

This scenario characterize firms which perform poorly under emotional and economic dimensions. Here it is possible to face different configurations of entrepreneurial failure such as:

- total failure,
- persistence with economic and psychological failure or
- exit to escape to avoid failure.

Figure 4 Family performance

		FAMILY DIMENSION	
		Positive	Negative
BUSINESS DIMENSION	Positive	I <i>Warm Hearts</i> <i>Deep Pockets</i> High Emotional and Financial Capital	II <i>Pained Hearts</i> <i>Deep Pockets</i> High Financial but Low Emotional Capital
	Negative	III <i>Warm Hearts</i> <i>Empty Pockets</i> High Emotional but Low Financial Capital	IV <i>Pained Hearts</i> <i>Empty Pockets</i> Low Financial and Emotional Capital

Source: Sharma (2004)

### 1.6.3 Individual Level of Analyses

According to Schulze and Kellermanns, (2015), family is made up of different people who could frame problems differently; so, when a decision is taken, not always this decision goes to preserve each dimension of SEW.

As previously discussed, in Shepherd model (2017), the emotional endowment of family firm is the sum of individual/sub-group emotional endowment; consequently, the firm's SEW and the FCNE will likely change over time, as the founders and/or family members move through the entrepreneurial process. Each family member or sub-group may have an own emotional endowment that may be different from the emotional endowment of the other family members/sub-groups; this difference may lead to conflict, which, in second step, will go to influence entrepreneurial action, family performance and the emotional endowment from which the conflict originally has arisen.

This difference may be explained, according to Eddleston and Kellermanns (2007), by the fact that individuals are emotionally attached to (and identify with) at least some

parts of their work (which is different by the work of the other family members); so, by pursuing opportunities which the sub-group doesn't identify with, this is likely to generate negative emotions. Furthermore, an interesting issue to highlight is that individual decisions of family owner/s could be underscored by coalitions of powerful family members; which could alter the course of decision-making (Kellermanns and Eddleston, 2004). Moreover, in the cases where occurs the failure of a project, this may create a negative impact to the emotional attachments of all (or parts of) family members. It is important to highlight that, as Ward notes (2004), in the cases where conflicts persist, together with an excessive effort expended on the conflict and related emotions, this goes to impact negatively to firm's performance, because this effort distracts from paying attention to business issues.

The entrepreneurial actions, that family owner (or to who is involved to take family decisions) adopt at the end of decision process, may induce him/her to a state of disappointment. As discussed before, this is the subsequent consequences if his/her perceptions and priorities of SEW and FCNE are different by the other family members.

## **1.7 Conclusion**

Entrepreneurial failure is a phenomenon that may be analyzed and studied with different: level of analysis, business life cycle, entrepreneurial career life course and different context; therefore, it is hard to give a clear and common definition without defining and having in mind the different factors which go to affect it. So, in the following chapter is possible to have a prospective of this phenomenon under the context of a family business. However, what has been described above, of family business, it is not sufficient to understand the relation between family business and entrepreneurial failure; thus, other elements that should be considered to understand this relationship, that will be analyzed in the following chapters, are:

- SEW, in fact, family firms don't consider, as their core factor, only the economic aspects but also the non-economic one. Some questions that highlight the importance to better understand SEW may be: *Why and how the SEW affects the perception of failure of family members? With different degree of SEW, which will be the perception and behaviors of the family members toward the entrepreneurial failure? And, so on;*

- Passion is another element that it is an aspect that characterize mainly family founders. However, Why and how passion could affect the perception of failure? It has a positive or negative relation with the failure phenomenon?; and,
- Entrepreneurial Orientation, that defines the enterprise risk-orientation. Even if it is an interesting aspect, we opted to not consider it in our model but it will be discussed in the last chapter.



## **FAMILY BUSINESS FAILURE: IN BETWEEN SOCIO EMOTIONAL WEALTH AND PASSION**

### **2.1 Introduction**

Family business, according to Family Firm Institute, are the most used form of business entity in the world. Some statistics shows the impact and the scope of the family business around the world:

- according to John Davis (2014), family firms amount to two-thirds of all enterprises around the world (John Davis' interview, Harvard Business School);
- each year, between 70% to 90% of global GDP, is created by family firms (Family firm Institute, 2010);
- family firms created between 50% to 80% of jobs (European Family Businesses, 2012);
- 85% of start-up companies are set up by family firms (European Family Businesses, 2012).

Moreover, family business are interesting to study due to their contributions in the economy, indeed, as Tharawat magazine note (Issue 22, 2014), family firms shows: higher profitability in the long run; higher long term strategic outlook; higher commitment with their communities in terms of charitably and philanthropic activities; lower inclination to lay people off, and they are more likely to hire people despite their economic situation.

Furthermore, for the above reasons, family business as a field of study, has met with significant growth over the last decades (Short, Sharma, Lumpkin and Pearson, 2016). This growth may be measured in terms of the number of studies published; indeed, within the business and management categories of Thomson Reuters' Web of Science

Core Collection, the argument of *family business*, is connected with 221 articles published in 2015 against the 15 published in 1996.

However, despite family firm positive contribution to the economy and to the society, also them face entrepreneurial failure. Some data prove the reasons why family firms disappear:

- 85% of entrepreneurial and family-owned company die, in their first 5 years of operation;
- Of those that survive, almost 30% are successfully transferred to the second generation of the founding family owners (Family Firm Institute, 2010).

The chapter is organized as follows. First of all, it is possible to find the literature meanings of family business, which allows the understanding of the difference between family and non-family business firms. After that, it is possible to find the definition and the implication of the Socio Emotional Wealth Theory towards the family firm. The SEW theory permits understanding and highlighting how entrepreneurial failure is not affected only by economic aspects, but there are something else that it will be argued and developed in the following chapter. At the end of this chapter, also another aspect, which is passion, will be introduced and developed that goes to characterized and differentiate each family firm from the other family/non-family firms.

## 2.2 Socio Emotional Wealth Theory

Family firms are significant different from non-family business and define them like a unique phenomenological setting, it is too simplifying (Gomez Mejia et al., 2011); to better understand this difference, Gomez Mejia et al. (2007) developed a wide Socio Emotional Wealth (SEW) model which suggests that family business are motivated by and committed to undertake decisions, so behaviors, to preserve their SEW.

Socio Emotional Wealth concerns to the non-economic aspects that impacts family firms which is characterized by key drivers such as the emotional driver or *affective stock* (Gomez Mejia et al., 2007), *preservative driver* and the *altruistic driver*. An interesting issue to highlight is that non-family managers and principals may be affected by non-economic values, however the values of Socio Emotional Wealth affect in a more deeply way - the psychological and the emotive dimensions - among family owners (Berrone, Cruz, Gomez-Mejia and Larraza-Kintana, 2010).

The *affective stock* covers a range of emotions, from tenderness, warmth, love, consolation, intimacy, happiness to jealousy, anger, hatred and ambivalence (Epstein, Bishop; Ryan, Miller and Keitner, 1993). However, it is interesting to highlight that this driver affects also the non-family business but the reason whereby this driver impacts more family firms than others is the strong relation between the family members' identity with their firm, which often carries their name (Dyer and Whetten, 2006). So, the perception of other shareholders and their community affects directly image and reputation of family owners (Chen, Chen, Cheng and Shevlin, 2010). Thus, self-concept and personal pride of family members tends to have a strong correlation with the business. Due to this strong relation between family members and the business, the ability to exercise authority and control over the business is one of the major source of emotional satisfaction (Schulze, Lubatkin, Dino and Buchholtz 2001).

As Aronoff (2004) notes, «the importance of family values as the pillars of the family business's culture... enabling the company to be differentiated from other enterprises»; in other words, the *preservative driver* consists in the perpetuation of family values (Handler, 1990), the conservation of the social capital of the family (Arregle, Hitt; Sirmon and Very, 2007), the preservation of family dynasty (Casson, 1999) through the business.

*Altruistic driver* refers to the desire, that characterizes family business members, to cater the welfare of the family unit (Gomez Mejia et al., 2011). Thus, this driver is not associated with efficiency and economic rationality issues, but it is linked to the non-economic dimension of the business through which being a family employee gives to the family owner/s satisfaction that it is independent of family members real capabilities and contribution to the organization. In other words, the fulfillment of family duty based on blood ties acquires higher importance than the economic and rational aspects used in the non-family business.

Moreover, managerial choices of family owners is influenced by SEW caused by the desire to preserve and enhance the non-economic benefits that family receives from ongoing venture ownership and control (Gomez Mejia et al., 2007). Thus, while for non-family firms, financial criteria is considered the principal one, for family firms socio-emotional endowment plays a pivotal role in the managerial choices. In other words, all the decisions and the problems are assessed by family owners in terms of how their be-

havior/s will affect SEW; so in the situations where endowment may be negatively affected, the family owners will take behaviors that aren't driven by an economic logic, putting the firm at risk if this is the only way to preserve that endowment. Conversely, family owners will avoid any risk that potentially may reduce the SEW (Gomez Mejia et al., 2011).

However, not always in family firms, the owners decide according to a logic of preservation of the SEW (Gomez Mejia et al., 2007); indeed, according mixed gamble logic, they are more willing to take risk strategic choices, even if there are no external threat, if they anticipate that the result of the risk taking implicate greater potential for gains, in term of SEW, relative to risk the prospective socioemotional losses (Martin, Gomez Mejia, Wiseman, 2013). According to Gomez Mejia et al. (2013), SEW could be considered as risk bearing for the family owners which is negatively related to risk taking and what affect family owners dilemma it isn't the expected performance, but rather the weighing of potential losses and gains; in other words, the estimation of potential SEW gains and losses. In this regard, according to Cruz and Arredondo (2016), may be used FIBER dimensions of SEW that allows understanding internal factors relevant to the family owners for the evaluation of the weight to give to the different opportunities and problems that they have to take decisions.

### **2.3 FIBER Model**

FIBER Model allows to understand the different aspects that characterize SEW, so all its dimensions. It is important to highlight that this model goes to understand and measures each dimension of SEW in a defined moment of the family firm; all these imply that this model goes to analyze SEW as stock and highlight which dimension/s affect/s mainly the family members' decisions and behaviors (Cruz et al., 2016).

#### *Family control and influence*

According to Berrone, Cruz and Gomez Mejia (2012), the first dimension of FIBER model refers to the control and influence that family members exert over strategic dimensions. The control can be exerted by the founder of the family business or by a dominant coalition. Furthermore, it can be exerted directly or indirectly; in the first situation the family member may have the figure of CEO (Chief Executive Officer) or chairman of the board, while the indirect way to control the family firm, may be through

the appointment the top management team members. Control and influence may be exercised in formal or informal way, the first situation derived from the exercise authority from a strong ownership position or an ascribed status, while the informal control may be derived from personal charisma of family members. Family firms tend toward to perpetuate owners' control and influence over the firm's business without considering the financial considerations; this is due to the fact that this dimension allows family firms to achieve the goal of preserving the SEW.

#### *Family members' identification with the firm*

According to Berrone et al. (2012) the identity of the family firm's owner and of the organization, more in general of the business, may be seen as a unique identity that usually carries the family's name. So, this goes to explain why both internal and external stakeholders see the firm as an extension of the family itself. The effects of this dimension could be split into: Internal Effects and External ones. Internally of the family firm, the unique identity will impact the attitudes towards employees and the internal process and the quality of the services and the products provided by the family firm. External effects regard the importance to perpetuate a positive family image and reputation towards their customers, suppliers and the other external stakeholders. Higher will be the weight that family members gives to this dimension, higher will be the levels of corporate social responsibility and community citizenship; thus, a positive image and reputation may be considered as key elements and key consequences of the unique identity dimension.

#### *Binding social ties*

Berrone et al. (2012) defined that the field of the third dimension concerns social relationships; providing, in that way, kinship ties, with its relative benefits such as collective social capital, feelings of interpersonal solidarity and closeness and relational trust. Moreover, the reciprocal bonds seen within family business are extended to a wide set of constituencies, and they aren't exclusively between family members; in fact, family business could have time-honored suppliers which may be viewed as members of the family. Furthermore, it is easy to find between non family employees a shared sense of belonging, self and identity, that are typical values of family members, promoting a sense of stability and commitment to the firm. The result of these reciprocal social

bonds in family firms is the pursuing of the welfare of those who surround them, even if they don't involve economic reasons. Usually, family firms pursue this goal for altruistic reasons, for the enjoyment of receiving recognition for non-profit actions or for both the reasons.

### *Emotional attachment*

The affective content of SEW are defined and managed in the fourth dimension by Berone et al. (2012). This dimension is related to the role of emotions in the family firm context; which context are affected by family history, knowledge of shared experience and past events that goes to influence and shape current activities, relationships and events. Knowing that families are characterized by an extensive range of emotions, by their own nature, these will result from daily events, and they aren't static, in fact they emerge and evolve through each critical events. Moreover, emotions will go to permeate the organization and in that matter will go to influence the family business's decision-making process.

Furthermore, regards the psychological aspects, the family firms become a place that family members utilize to maintain a positive self-concept; in other words, family members satisfy their needs for belonging, intimacy and affect through their firm. It also promotes the sense of legacy of the family members, creating, in the cases of loss, a highly emotional event for most owners.

In some situation, the sentiments that characterize family firms may have negative effect, making kin relationship not functional. In fact, in non-family firms, all the dysfunctional relationship will end with the termination of employment contract while for family business, where the emotional attachment is high, conflicting relationship are preserved.

### *Renewal of family bonds to the firm through dynastic succession*

Last dimension regard the issues of transgenerational sustainability, thus the intention of handling the business down to the next generations. In this perspective, the family firms become something more than an asset that may be easily sold, since it represents and symbolizes the family's tradition and heritage. This perspective, so, induce to family members to adopt a long term planning horizons, although this may create some undesirable consequences such as conflicts over succession and managerial entrenchment.

## **2.4 Dynamics of SEW: Stock and Flows of Emotion Resources**

As we previously said, family firms differ from non-family firms, mainly for the SEW issue characterized by all its dimensions; however, even if family firms are all characterized by SEW approaches that used to make decisions and run the business, also family firms differ each other.

According to Miller and Le Breton-Miller (2014), each family firm is characterized by different SEW priorities; in other words, the primary source of differences is Family-Centered Non-Economic (FCNE) goal pursuance and the SEW that the achievement of such goals produces. The FCNE are the non-economic benefits that family firms pursue in a certain time of their life, collectively all the FCNE creates the SEW of the family firm considered (Chua, Chrisman and De Massis, 2015).

Similarly to the economic aspect where it easy to find the flow (profit) aspect and the stock (accumulated assets and the financial wealth) aspect, also in non-economic aspect could be identified:

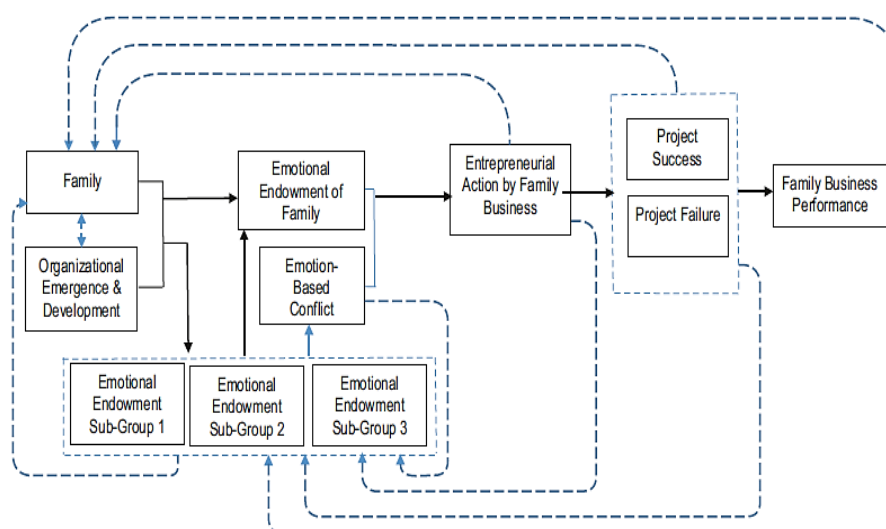
- the flow - FCNE goals which could be considered as qualities in that family business invest in activities that allows them to achieve to non- economic outcomes;
- the stock - SEW which could be considered as the accumulation of stocks of affective resources that have non-economic value.

Thus, starting from the FIBER Model (Berrone et al., 2012) that defines the different dimensions of SEW, it is possible to understand which are the internal factors relevant for the assessment that affects family owners decisions. Thanks to this analysis may be possible to find different behaviors that family owners adopt which, in turn, depends on the predominant dimension of FIBER (Cruz and Arredondo, 2016).

Sheperd's Model (2017), goes to define the process that characterized each family firm and with it, it is possible to highlight different issues about how and why the family business are heterogeneous, and they aren't all equals; these issues are:

- the *existence of sub-groups*, in the same family firm, with an *own emotional endowment* which may differ by the emotional endowment of the family ones;
- the *nature of the family business*, in other words the SEW of the family business, and the *SEW of each sub-group*, can be influenced by: family business's entrepreneurial actions, project outcomes and performance (Figure 5).

Figure 5 A sketch of an emotion-based entrepreneurial process in a family business



Source: Shepherd (2017),

Thus, in this model Shepherd shifts the level of analysis of the family business toward an individual level, allowing in that way to reveal how and why the stocks and flows of emotions influence entrepreneurial activities. A subsequent consequence is that family firm's SEW is made up of the emotional endowment of its different sub-groups; differences in emotional endowment can lead to conflict. The existence of different groups is justified by the fact that family members are likely to identify with and be attracted to different activities and more in general different parts of the firm (Dyer and Whetten, 2006); thus, pursuing opportunities with which sub-groups identify, that creates them positive emotions, while they have negative emotions in the opposite cases.

The second aspect, that may explain the heterogeneity between family firms, is the relationship between stocks and flows which could be recursive, considering economic and non-economic dimensions in both stocks and flows, with the relative importance of the effect of stocks on flows and the effect of flows on stocks (Chua et al., 2015). Thus, family business may be driven, in their decisions and behaviors, by their stocks of SEW and economic wealth or by flows related to economic and FCNE benefits. First category of family owners are characterized by conservative behaviors while the second ones are characterized by more aggressive behaviors (Chua et al., 2015). The relation of flows and stocks could create a SEW – FCNE/ entrepreneurial action spiral, for example, if the SEW affects a firm's decision to undertake an entrepreneurial action, then the entrepreneurial process affects positively or negatively the SEW (Shepherd, 2017); with a



higher level of SEW that leads to more entrepreneurial action, this last issue affects positively and with a lower level of SEW the effects will be the opposite one than the previous case.

## **2.5 Why and How SEW affects the *nature* of Entrepreneurial Failure**

In sum, SEW is the main characteristic that differentiate family firm from non-family ones; moreover, it also plays a key role in family business life through motivating the family members. It also explains which are the internal factors that also influence the behaviors of the family member; thus this elements may be used to explain why entrepreneurial failure occur, if it is due to economic issues or non-economic ones, such as lose of internal control or not achieving an expected result and which will be their behavior/s such as persistence or exit. Moreover, knowing the concept of mix gamble logic (Martin et al., 2013), the loss of SEW or performance that may be seen as entrepreneurial failure by the community of the entrepreneur, under the prospect of family owners, their behaviors and results could be seen as a strategic decision for a prospective higher gain in term of SEW.

Furthermore, SEW and FCNE allow to identify a diversity between family firms, so not all the family firms are equals, and between sub-groups in the same family firm which subsequent result is the opportunity to better understand the reasons and which are the situations that entrepreneurial failure occurs and which will be the potential behaviors that failed family's entrepreneurs adopt.

Clearly, therefore SEW is one of the key aspects that characterize family firms, from making decisions to the behavior that family members adopt, however the emotional dimension is only one of the different dimensions that define entrepreneurial failure. Thus, in the following chapter we'll go to better analyze what entrepreneurial failure is, which are the other dimensions that define it and after that we'll go to customize entrepreneurial failure definition under family business context.

## **2.6 Final decision makes priorities: contingency variable**

As Cruz et al. (2016) note, family members priorities may be related to one or more FIBER's dimensions, thus, it is possible to determine in which measures their relevant internal factors go to affect the weight of the evaluation to the different opportunities

and problems. However, according to Gomez Mejia et al. (2011) and Cruz et al. (2016), the dimensions of SEW could acquire different importance depending on contingency variables; which consequently affects and characterize the nature of the family firm. This is why, Cruz et al (2016) highlight the importance to consider the situational approach that identifies the variables under which different SEW-based choices increase or decrease firm's performance. Such contingency variables could be:

- Family Stage;
- Firm Size;
- External Environment; and,
- Family firm's Internal and External Community.

### *Family Stage*

Family emotional endowment changes as the firm transitions from one generation to the next because, the preservation of SEW priorities and frame of reference, begin lesser relevant to take into consideration during decision process than the financial one (Gomez Mejia et al., 2011). This is because issues as influence, personal investments and family identification decrease once the firm transitions from founder controlled firm to descendant controlled one. In fact, as Gomez Mejia et al (2007) note,

«losses in socioemotional wealth should weigh less heavily on a family firm's willingness to give up control as it moves from stage one [...] to stage three».

Furthermore, there are many researches that go to confirm these trend such as:

- Descendant controlled firms are run more professionally than founder controlled one (McConaughy and Phillips, 1999);
- Descendant controlled firm are more likely to terminate family executives for poor business performance (Gomez Mejia , Nuñez Nickel and Gutierrez, 2001)
- Descendant controlled firms have a control system that is more objective and formal respect to founder controlled one (Brun de Pontent and Wrosch, 2002).

### *Firm Size*

Organizational size is variable that is thought to be positive related to SEW (Gomez Mejia et al., 2011); in fact, according to Wasserman (2006), bigger will be the company

higher will be: the necessity to share influence to third parties, the inclination to pursue self-interested motives over the welfare of the entire firm, and they exhibit lower levels of emotive, so psychological, ownership. Moreover, higher will be the dimension of the firm, higher will be the needs to adopt a bureaucratic control, which may affect the culture of the firm, leading to a separation between family's identity and firm's one (Scott, 2003). However, there are some cases where the dimension could be less relevant but at the same time SEW may have little influence on decision-making (Schulze and Kellermanns, 2015), such as:

- In the small size of family firm, the family members' needs and motivations are based on wages;
- In the large size of family firm, since family welfare is already assured.

### *External Environment*

Knowing that family firm's members, tend to preserve one or more dimensions of the SEW, even when these harm financial performance. The positive or negative relationship between firm's performance and the decisions linked to preserve the SEW, according to the research of Naldi et al. (2013), depends on the alignment between the family's SEW goals and the prevailing formal/informal norms (or in other words, institutional logic) characterizing the environment. Thus, environment plays an important role in the family firm's life course; defining if SEW may be considered as asset if the environment is characterized by tacit rules and social norms prevail, or SEW may be considered as liabilities if the environment is characterized by formal rules.

In sum, entrepreneurial failure may be perceived by the family member who is involved in last decision of the family firm process, *ceteris paribus*, when:

- Family firm face poor economic performance, where the behavior pursued could persist, despite economic failure, or he/she could take an exit choice (Sharma, 2004);
- SEW or one/some of its dimension/s is/are negatively affected by entrepreneurial action, project outcomes and/or performance, where the behavior adopted by the family member may be persistence, despite the entrepreneur entry into a psychological state of disappointment, or he/she could take an exit choice (Shepherd, 2017);
- Face both economic and psychological state of disappointment.

## 2.7 What is Passion in Family Firms?

In the recent literature (Cardon, Wincent, Singh and Drnovsek, 2009), entrepreneurial passion has defined as:

«consciously accessible intense positive feelings experienced by engagement in entrepreneurial activities associated with roles that are meaningful and salient to the self-identity of the entrepreneur».

However, more generally, as Vallerand and Houliort note (2003), passion could be defined as a strong inclination toward an activity that he/she finds important, likes or loves that induces them to effort time and energy. In line with this definition, it is possible to highlight how passion fits well with the driving forces that lead entrepreneurs to work for long hours with stubbornness and persistence. Therefore, passion could be considered as a «*special relationship one develops with a specific activity*» (Mageau, Vallerand, Charest, Salvy, Lacaille, Bouffard and Koestner, 2009). This last issue suggests that a person pursues an activity with passion if and only if it becomes a central feature of the person identity; thus, SEW's dimensions (Identification dimension and Emotional dimension) have a leverage effect on passion. In fact, family member goes to evaluate family firm in terms of factors that he/she deems important, so, related to his/her identification and emotional attachment with their activity for family firm.

Additionally, even if, from a theoretical point view, passion is related to motivation, it is a separate construct; as a matter of fact, Vallerand et al. (2003), demonstrated empirically that passion impacts but is separate from extrinsic and intrinsic motivations.

Furthermore, a person could experience two different kinds of passion toward an activity: *harmonious passion (HP)* or *obsessive passion (OP)*. The typology of passion depends on the context in which the activities are internalized in his/her identity (Vallerand et al., 2003). Harmonious passion is developed in a context where the activity is undertaken willingly and freely, while an obsessive passion is the result of internal or external pressures. Furthermore, both harmonious passion and obsessive passion are positively correlated with:

- how the person (in our case the entrepreneur) valuating the considered activity;
- the time invested in the activity; and,
- the perseverance in the considered activity (Vallerand et al., 2007) .

In the research of Rutherford and Kuratko (2016), defining the family legacy orientation (FLO), they suggest the importance of two issues: passion and grief; as a matter of fact, they theoretically suggested a positive relation between passion and FLO and a negative relation between grief and FLO. In addition, many entrepreneurship scholar such as Cardon et al. (2009) recognized the relevance of the distinction between harmonious passion and obsessive passion, even if virtually there are few researches that utilized this division of passion (Tognazzo, Gianecchini and Gubitta, 2014).

## **2.8 Conclusion**

In this chapter we put in evidence which are the differences between family firms and non-family firms which will allow us, in the following chapter, to better understand which are the relevant factors to take into consideration, when we study and analyze the context of family firm. Thus, if we would try to summarize this chapter, the most relevant issue to take into consideration are:

- the importance of the SEW's dimensions for the family firm's members (Berrone et al., 2012);
- it is important to divide the concept of stock and flow relative to the emotional attachment (Chua et al., 2015);
- family firm could be considered not only as a unique person but exist inside a family firm two or more sub-groups which may affects and/or be affected by the decisional process of their family firm (Shepherd, 2017);
- each sub group and each person has different SEW priorities (Shepherd, 2017);
- family firms are characterized and affected by some contingency variables (Cruz et al., 2016, Naldi et al., 2013);
- the importance of passion which characterized almost all family members (Cardon et al., 2009); and,
- the division of passion in harmonious passion and obsessive passion (Vallerand, 2003).



## AN EXPLORATIVE STUDY OF FAILURE IN FAMILY FIRMS

### 3.1 Introduction

In this chapter, starting from an explorative study, we are going to put together all the aspects that we have already analyzed and argued in the first two chapters in order to achieve a more nuanced and detailed overview about entrepreneurial failure under family business' context. Furthermore, we developed different proposition which can be split in two categories: the first category links the entrepreneurial failure with SEW aspects while the second category highlight the relationship between entrepreneurial failure and entrepreneurial passion.

### 3.2 An Explorative Study

#### *Methods and Procedures*

In order to close the gaps between the research and practice, related to how and why a family member perceives entrepreneurial failure (and, which could be his/her behavior after the perception of failure), a combination of inductive and qualitative research has been used (Eisenhardt and Graebner, 2007).

This research uses case data to zoom in on entrepreneurial failure multi-dimensional phenomenon. Moreover inductive method based on multiple-case studies, was used in order to formalize the deductive process employed (Hyde, 2000) and results in a better-grounded and more generalised theory than in a single case scenario (Yin, 1984; Eisenhardt, 1989).

As Yin (1994) notes, case study approach allows to understand the phenomenon under investigation, by relying on different sources of evidence. The qualitative research is

used and it is recommended when a complex phenomenon such as entrepreneurial failure, in a family context, needs to be analyzed in detail and the focus is on a better understanding how the participant views it (Creswell, 2013). For what concerns the qualitative research, we decided to support the deductive approach with the narrative approach, knowing that last one produces «*rich, thick data*» (Willis, 2006) because they are devices of interpretation (Lawler, 2002) through which it is possible to make sense of experiences, to elaborate opinions or give reasons for the behaviors adopted by people (Shkedi, 2005). Our research setting is composed of Italian SMEs where family leader/s is/are directly involved in the management of the firm.

Research on entrepreneurial failure focused on family firm is still quite sporadic. One of the first studies in which this topic was introduced, «*Learning from Entrepreneurial Failure*», was published in 2016. Furthermore, this issue is highlighted, looking at the list of researches published in the *Family Business Review*, by the fact that the only paper that discusses the phenomenon of entrepreneurial failure is «Does Family Involvement in Management Reduce the Risk of Business Failure? The Moderating Role of Entrepreneurial Orientation» (Revilla, Pérez-Luño and Nieto, 2016).

### *Case Selection*

The cases analyzed below were indirectly chosen through a *snowball sampling* which permits to identify different cases of interest from people who know other people who are good interview subjects or who know other people that are good examples for study (Patton, 1990). This approach was used in previous researches on entrepreneurial failure (Cope et al., 2004; Singh, Corner and Pavlovich, 2015). In our study, we obtained only few cases which allows us to obtain only a first testing of defined proportions. We decided to focus our attention on SMEs family firms, where the participants have previously had difficulties in terms of economic and/or psychological aspects. Moreover the owning family had to be involved in the management of the business. The firm analyzed were generally third generation, which means that firms were relatively young, and all the cases were located in the north-east of Italy.

### *Data Collection*

For the collection of the data, we used different ways and different means. Firstly, we gathered the data through semi-structured interviews with individual respondents. In all



the interviews were not mentioned words as failures, psychological failures, economical failures, obsessive passion and SEW, since, these words could negatively affect to gather what they really think, believe and how they interpret these issues. Interviews were conducted in person using an interview guideline and a evaluation system (questionnaires) concerning passion, own meaning of failure and SEW. The interviewee was spurred on giving a degree of accordance with some sentences, knowing that there was not a correct answer but all the possible answers could be correct. During the interview, we had the opportunity to established which is the *Leaders'*:

- global career level of satisfaction/dissatisfaction, which level permits us to understand the preferable strategy that they could adopt in certain circumstances (Greenhaus, Parasuraman and Wormely, 1990; Mageau, Vallerand, Charest, Salvy, Lacaille, Bouffard and Koestner, 2009));
- own definition of perceived failure which was obtained, through a series of hypothetical situations which are indirectly related to the entrepreneurial failure definitions (Khelil, 2016);
- the type of passion that characterizes them (Vallerand et al., 2003; Greenhaus et al., 2009); and,
- their own hierarchy of SEW's dimensions (Naldi, 2013; Shepherd, 2017).

A useful way to measure the SEW that characterized and defined a family business context, is suggested by Naldi's et al. research (2013); in fact, knowing that SEW has been defined and it is continuously being defined by a wide objective (which involves the different dimensions of the SEW) and related strategic behaviors, it is possible to embed these objectives in three main categories:

- *Control* is characterized by all the objectives which lead to preserve and enhance the control and the influence over the family business' operations and ownership.
- *Dynasty*, as the same name suggests, this category consider all the objectives which lead to perpetuate the family dynasty, ensuring that the family business is managed and owned by the future generations;
- *Reputation* is considered as main issues the objective to support family image and reputation.

Figure 6 Objectives underlying the preservation of SEW and their expected behavior

Objectives underlying the preservation of SEW	Expected strategic behaviours
<p><b>Control:</b> Keeping control and influence over the firm's operations and ownership</p>	<p>Appointing relatives to key managerial, or otherwise strategic, positions (Chung &amp; Chan, 2012)                      Being reluctant to incorporate executives from outside (Schulze et al., 2003a), especially if they hold knowledge and expertise outside the experience of the family owners (Gomez-Mejia et al., 2011a,b)                      Being reluctant to diversify (Berrone et al., 2010; Le Breton-Miller &amp; Miller, 2006)                      Assembling a board that supports the family's decisions and preferences (Mustakallio, Autio, &amp; Zahra, 2002)                      Using control devices such as supervoting shares for the family (Bae, Kang, &amp; Kim, 2001)                      Postponing CEO succession as much as possible, and being reluctant to plan for succession (Miller, Le Breton-Miller, &amp; Lester, 2011; Sharma, Chrisman, &amp; Chua, 1997)</p>
<p><b>Dynasty:</b> Perpetuating the family dynasty, ensuring that the business is handed down to future generations</p>	<p>Appointing a relative to succeed, even if that person is less qualified (Cruz et al., 2012)                      Favouring, and at times even spoiling, employed family members from the younger generations (Lubatkin, Lane, &amp; Schulze, 2001; Lubatkin et al., 2005)                      Choosing long-term relationships over short-term transactions (Miller &amp; Le Breton-Miller, 2003a)                      Displaying longer-term planning horizons, committing to projects that will contribute to company performance only years hence (James, 1999; Le Breton-Miller &amp; Miller, 2006)                      Favouring long-term investments at the expense of short-term financial objectives (Gomez-Mejia et al. 2007)                      Setting a higher acceptable sale price for the business than do other equity holders (Zellweger &amp; Dehlen, 2011)</p>
<p><b>Reputation:</b> Sustaining family image and reputation, building social capital</p>	<p>Responsible employment practices (Zellweger et al., forthcoming), including</p> <ul style="list-style-type: none"> <li>○ Paying employees (with the possible exception of top executives) better than non-family firms</li> <li>○ Granting employees generous benefits, especially long-term ones such as pensions and health insurance (Le Breton-Miller &amp; Miller, 2006)</li> <li>○ Engaging in fewer lay-offs (Miller &amp; Le Breton-Miller, 2003a)</li> </ul> <p>Developing and maintaining trusting relationships with suppliers, customers and support organizations (e.g., banks and community financial institutions) (Zellweger et al., forthcoming)                      Striving to be a trustworthy partner (Miller &amp; Le Breton-Miller, 2003a)                      Pursuing environmental actions (Berrone et al., 2010)                      Conforming to social norms (Fombrun &amp; Shanley, 1990)                      Supporting the local community, and building and maintaining goodwill in the community (Cennamo et al., 2012)</p>

Source: Naldi et al. (2013)

On average, they lasted one hour and were recorded whenever possible. Moreover, where possible, the same interview data was checked through other similar interviews

to another family member. Each company and each entrepreneur will be presented under pseudonyms.

### **3.3 Case Study Alfa**

Alfa is a farm which produces unusual salad and that exports its products to other countries in the EU and in Asia. The firm was founded in 1970 by Luca's grandfather, and, until the management of Luca's father, the farm was producing all types of fruits and vegetables. Now, Luca owns and managed the farm, giving a great importance about what he learned (in terms of skills, competences and values) from his father. He started working when he was child, and he started leading the family business in 1990. Luca, his wife and his daughter take part in the family business, while the non-family workers are 6 people. Thanks to the family values as innovation, he changed the farm's product lines, that helped the activity to grow continuously until 2001, when euro was introduced. In fact, Luca reported,

«when euro was introduced, my business was negatively affected for many reasons: buying from an Italian farm was no more convenient for local customers; and it is already hard to sell where you want due to the fact there are not international agreements that allow to sell your product where you want. If I want to sell, I have to pay attention if there exists an international agreement which gives permission to».

#### *Perceived entrepreneurial career satisfaction*

Globally, Luca showed a high career life course satisfaction, even if, regarding the economical aspects, he showed a preference to divide his carrier life course in two different periods: before the adoption of euro as a common currency (5 over 5) and after its adoption (4.6 over 5). Before the euro he felt that his aims were achieved, while after the introduction of euro, he felt that his firm lost the capability to compete with other big firms. He defined himself as an innovator which gives him a good self-perception towards his community. An interesting issue is that Luca's first career choice wouldn't have been that of leading the family business. What he really wanted was to become a mechanic, but life necessities and the need for someone to take on the family business made him continue his passion inside of the family activity itself, renovating the farm's work with the introduction of new machines.

### *Perceived failure*

Knowing that the perception of failure depends mainly on the *Leader's* internal motivations, using Jayawama et al. (2016) clusters' classification of the entrepreneurs, Luca could be identified as a mix of *Learning and Earning Entrepreneur* and *Prestige and Control Entrepreneur*. In this part of the interview emerged that for him failure occurred if:

- impossibility to sustain his family because of negative firm's performance occurred;
- the family's life is negative affected by their activity;
- control of his family firm was lost.

Thus, putting together the answers to the questionnaires and what arguing points during the interview, it is possible to conclude how the psychological disappointment is the only failure that he could perceive, as happened in the past:

«when I was involved to manage my family business activity, I had to find a way to bring out our firm from a non-profitable business to support my family's needs».

Moreover, in the hypothesis that the firm could be affected by a negative performance, Luca always highlights that money is only a mean to satisfy the needs of the family and his personal needs. Thus, if the business goes wrong, it is his fault so he feels that he has to find a way to change the situation. In the case that he loses this personal challenge, he will perceive a personal failure, translated in a psychological disappointment.

### *Passion*

The result of the questionnaire defined that the *Leader* has a high level of passion for his firm (3.7 over 5); more precisely, the data shows us a greater level of Harmonious Passion (4 over 5) than the Obsessive one (3.3 over 5). Some examples which characterized Luca with a high level of HP could be: the opportunity that the family firm offers him to make different and memorable experiences (such as with his employees) and the continuous learning opportunities. While, as regards the OP, an interesting item to highlight due to its interpretation by Luca is «It is very hard to control the need to go to work», in fact, his answer was 3 over 5, even if, after he said

«..holidays are a moment when you could learn something new to innovate my business».

### *Socio-Emotional Wealth*

Concerning the level of SEW, the result of the questionnaire and what reported during the interview, go to highlight its high level (3.4 over 5). Going to analyze the Leader's hierarchy of the different dimensions, from the first priorities to the last one, it is possible to find: *Reputational Dimension* with 3.7 over 5; *Control Dimension* with 3.5 over 5; and, *Successional Dimension* with 3 over 5. Reputational dimension was emphasized by Luca with his passion and the continuous investments in term of offering learning experience and knowledge to his community

«.. a good name in your community could be a synonym that your heart is not sick..».

He suggests us that family control of the business and its involvement is very important for success of the same family firm; even if, the family's involvement in managerial matters not always is a correct strategy if the family member is not competent

«..he/she must learn and acquire knowledge and after be involved in the first managerial line...».

### **3.4 Case Study Beta**

Beta srl is car dealership, a family business runs by the son of the founder Giacomo (second generation family firm). The firm was founded in 1972 by Giacomo's father, which, which is already the unique stakeholder of the firm. Now, Giacomo is the CEO of the firm. He began to work for the family company since 2005 as responsible of the old-car dealership division. There are only his cousin that actually is involved in the family activity while his brother and his sister don't work in Beta srl.

#### *Perceived entrepreneurial career satisfaction*

During the interview Giacomo manifested a medium rating of satisfaction (3 over 5) caused by the constraints that he had until the recent period where he hadn't the opportunity to take any managerial decisions. However, he feels that the firm offer him the opportunity to learn due to the dynamic and competitive environments; in fact he stated:

«..our market is characterized by sharks and assassins...».

He also reported that he feels that he hasn't already achieved his economic objectives due to the fact that he started from a negative situation of the family firm's performance.

### *Perceived failure*

According to the model of motivational clusters (Jayawama et al., 2016), Giacomo could be embedded into the category of *Economically Driven Entrepreneurs*, in fact, he manifested a great importance for the needs to achieve and create a high level of profitability. In the different configurations of failure proposed through the narrative approach, it is possible to find a tendency to perceive failure if he doesn't achieve his threshold aims; as information collected highlight, even if he enters in a state of psychological disappointment for family issues, he evaluated more important to persist with this disappointment because of the left of the family business, from his point of view, may create a worse situation if there are no others entrance of money.

### *Passion*

Differently from the previous case, Giacomo presents a lower level of passion (2.6 over 5) toward his family firm cause by different reasons: the business doesn't reflect him, the previous –non-existence of passion toward cars and the attachment to the economic aspect. More precisely, the data show us a greater level of Obsessive Passion (2.7 over 5) than the Harmonious one (2.4 over 5). The obsessive passion, during the interview, is emerged in this case mainly when he admitted that for him it is very difficult to control the need to go to work «..I have to go to work also in the weekend...I have to know all things... we are talking about my money and about my family business »; he also admitted that his emotions are connected with daily work-life

«.. there are some days that I go to home and I'm feel depressed...».

### *Socio-Emotional Wealth*

The *Leader* of Beta srl is not SEW oriented as the data show us: 2.4 over 5. If we analyze the different dimensions of SEW that allow deeper analyses, it is possible to discover this hierarchical priorities: reputational dimension (3 over 5), control dimension (2.5 over 5) and succession dimension (1.5 over 5). Thus, even if, reputational dimension is considered important in first line in terms of family name etc, we discovered uti-

lizing narrative approach as method to collect data, that this dimension is not important in terms of corporate social responsibility and community citizenship as are relevant for many family firms, but it is more relevant, as other non-family firms do, for the sustainability of the business. Even if it is a historical family firm, the low level of SEW orientation of the *Leader*, may be caused by a low participation of the same family members into the activity during the years; therefore, the management of the business, given to third part from 1992 until 2017, with the periodical supervision of the Giacomo's father, may went to disrupt/negative affected the level of SEW accumulated.

### **3.5 Case Study Gamma**

Gamma srl was a holding of different division of car dealership. It is an historical family firm founded in 1967 by Eddy's grandfather, with more of 85 employees. It was closed recently in 2017 through the composition with creditors. In the last periods was managed by Eddy which figured as the CEO of the family firm and by his father.

#### *Perceived entrepreneurial career satisfaction*

Eddy manifested globally high level of career satisfaction (4 over 5) in almost all the items analyzed. Some interesting phrases which confirm what he stated:

«...what I did, helped me to learn more and more... in fact, thanks the acquired skills and competences, I actually manage different activities from the consulting, to the activity of executive manager.. to manage family firms activities».

The worst item, considered by the *Leader*, regards the economic satisfaction; this negative perspective is caused by a background which the economic environment of his industry was badly affected by the crisis

«..Italian environment is no more competitive as are many other countries... it is difficult to make business in a context which each year the business performance decrease of 10%... our generations should go out from the Italian market, to find goods economic opportunities».

#### *Perceived failure*

Following the model of motivational clusters (Jayawama et al., 2016), also Eddy (as Giacomo), could be embedded into the category of *Economically Driven Entrepreneurs*,

even if he presented different characteristics which suggested us to embed him also in the *Learning and Earning Entrepreneurs*' cluster. This mix of motivations that characterize his style of entrepreneurship, may be perceived by his perception of entrepreneurial failure; in the items used, we discovered that for him a healthy business is connected with the achievement of the personal needs and vice versa.

«..I believe that firm's performance and personal needs are strictly connected... if you believe in your strategy and you think that it is the right way to achieve success [in both the dimensions: economic and non-economic].. you have to bet in your belief! Otherwise, [if you are not sure in your belief] I suggest you to exit before you lose all thing».

According with mind-set, he thinks that it is not rational to not be afraid about failure, even if, he underlined that if you are an entrepreneur, you should be risk-taker.

### *Passion*

The result of the questionnaire defined that the *Leader* has a high level of passion for his firm (3.3 over 5); more precisely, the data show us a greater level of Harmonious Passion (3.9 over 5) than the Obsessive one (2.7 over 5). Some examples which characterized Eddy with a high level of HP could be: the opportunity that the family firm offered him to make different and memorable experiences

«..sometimes you have to trust with what you perceive about a person to hire... if your perceptions were right... you feel as Superman!».

While, as regards the OP, he rejected the idea to put the work in the centre of own life.

### *Socio-Emotional Wealth*

As the *Leader* of Beta case also Eddy manifested an adverse SEW orientation; in fact, the data show us: 2.7 over 5. With a deeper analyses of the SEW dimensions, the hierarchical structure is identical of Beta's *Leader*: reputational dimension (3.3 over 5), control dimension (2.5 over 5) and succession dimension (2 over 5). Also in that case, reputational dimension has the higher priorities, not in terms of corporate social responsibility and community citizenship, but in terms of developing a network which allows to create a sustainable business.



### 3.6 Case Study Delta

Delta snc is a company founded in the 1972 by the father and the uncle of Rosy. It was born as firm which main activity was metal polishing, but in 1987 the core business changed into sanding wood. In this year, Rosy started to work in the family firm, inside accounting function and HR function. The economic crisis of the 2008 negatively affected the performance level of the firm, and the delay of payment of their biggest client in the 2011 led to a deterioration of the situations. Actually, inside the company works Rosy and her brother; moreover, there are different investments in term of technologies and there are some changes in managerial terms.

#### *Perceived entrepreneurial career satisfaction*

During the interview Rosy manifested a medium-high assessment of satisfaction (3.4 over 5). The two items of goals that she perceived as almost reached regards: the social status and the career life course; while the purpose that she thought as no-reached regard the economic aspects. These trends reflect the different positive and negative past events that had a great impact to her life. Negative events such as the economic crisis which decrease the firm's performance or the issues of liquidity that made her unable to pay her employees; and positive events such as:

«...when my employees understood what is happening in the firm... they wrote a letter to the INPS which they manifest their will to refuse their past contribution not paid by the firm in the last 10 months».

#### *Perceived failure*

Knowing that, the perception of failure depends mainly on the *Leader's* internal motivations; utilizing Jayawama et al. (2016) clusters' classification of the entrepreneurs, Rosy could be identified as a mix of *Social Entrepreneur* and *Prestige and Control Entrepreneur*. In this part of the interview emerged that she perceives failure if:

- she cannot sustain her family and her employees, because of negative firm's performance; «... I cannot pay my girls [my employees] ...».
- she perceives that family's life is negative affected by their activity; and,
- she loses the control of her family firm.

Putting together the answered of the questionnaires and what she argued during the interview, it is possible to conclude that a negative performance of the firm it isn't a nega-

tive event per se, but the consequences which affects her value lead her to perceive failure.

«for me, money isn't only a way to buy something... it's something that create wellness for my family, for my employees and also for me. It allows me to be free and not to be dependent on someone; thus, money offers me convivial moments...».

### *Passion*

Rosy presents a high level of passion (3.9 over 5) towards his family firm because of different reasons, but more precisely, the data shows us a greater level of Obsessive Passion (4.3 over 5) than the Harmonious one (3.4 over 5). The obsessive passion, differently from the previous cases, is emerged in many items with a score as 5 over 5 such as the positive relation between her state of mind and her capabilities to make her job right; or it is very hard to control the need to go to work «... my mum frequently sad to me to wear something else than my work clothes». Additionally, this obsession may be caused by:

- her aim is to be free. «I couldn't live without my business! My life would be meaningless if I wouldn't do this job»;
- her childhood experiences work «..I felt that the family firm was as a brother...the factory was my recreation area..»

### *Socio-Emotional Wealth*

Concerning the level of SEW, the results of the questionnaire and what was reported during the interview, there is a high level of socio-emotional wealth (4.1 over 5). Analysing the Leader's hierarchy of the different dimensions, from the first priorities to the last ones, it is possible to find: *Control Dimension* with 5 over 5; *Reputational Dimension* with 4.7 over 5; and, *Successional Dimension* with 2.5 over 5. Additionally, as Rosy suggests us, in her opinion the family control of the business and its involvement in all the issues of the firm, it is very important for success of the same family firm. Furthermore, as she stated during the interview, having the control of the business can be interpreted in: *no one can touch the safety and the wellness of the family*. As regards to the second dimension, in terms of importance for Rosy, differently by all the other cases, she presented a high level of corporate and personal responsibility towards her

community (5 over 5, as item score). Even if different authors as Cruz et al. (2011) highlight the negative relation between the dimensions of control and of corporate social responsibility (CSR), Rosy, surprisingly, well mediates this opposite needs.

### 3.7 Analysis and Discussion

From the cases analyzed, we perceived a sort of relation between psychological entrepreneurial failure and two main arguments: SEW and entrepreneurial passion (Table 3).

Table 3 Perceived failure: results from our explorative study

FAMILY FIRM	LEADER'S NAME	GENERATION	M/F	YEARS	PERCEIVED FAILURE
Alfa	Luca	3° Generation	M	54	Persistence with an entrepreneur's disappointment
Beta	Giacomo	2° Generation	M	31	Persistence with an economically failing firm
Gamma	Eddy	3° Generation	M	44	Exit to escape to avoid failure
Delta	Rosy	2° Generation	F	48	Persistence with an economically failing firm

#### 3.7.1 The relationship between SEW and Entrepreneurial Failure: a model of analysis

Starting from the analysis of the potential relation of SEW and entrepreneurial failure, we are going to fit the above cases with the literature view.

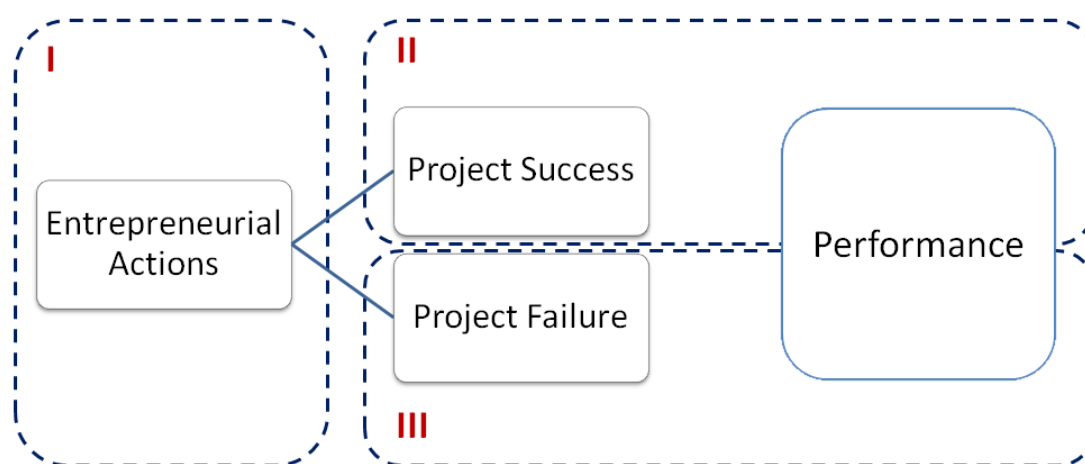
A brief introduction and contextualization of the first argument of analysis could be achieved thanks to a seminar paper: *Grief recovery from the loss of a family business: A multi-and meso-level theory* (Shepherd, 2009), where entrepreneurial failure has been linked, for the first time in the literature, with the family firm. In his research, Shepherd focused on the grief issue through defining the importance of the family as a way to *recover grief*. However, knowing that SEW is the sum of the emotional endowment of each family member/sub-group (Shepherd, 2017), entrepreneurial failure may be studied under two perspectives, that represent respectively two different categories:

- is/are the family member/s responsible to take decision, in other words he/she/they are the family owner/s or coalition of powerful family members (*Leader*);
- are all the other members that have no decisional power (*Follower*).

Therefore, our analysis, which links SEW with entrepreneurial failure, has as aim to understand when the *Leaders* perceive failure. Thus, we tried, starting from the emotion-

based entrepreneurial process in a family firm, to focus on some aspects as the entrepreneurial actions, the success or failure of the project and the performance of the family firm. In that way, we obtained three different contexts which *Leaders* may perceive failure, after a decision which involves and affects one or more SEW's dimensions (Figure 7). Consequently, knowing which will be the actions and the behaviors adopted by the family firm, allows us to highlight which could be their perception towards the achieved results. Moreover, depending on the objectives aimed by the decision makers of the family firms, the level of performance could be positively or negatively affected.

Figure 7 Three contexts where a family member may perceive failure



Source: adapted by Shepherd (2017)

### First context (I) – Entrepreneurial Actions

In the first context, our attention is focused on the perception of the *Leader* if a *Follow-er* decides to exit from the family firm.

Starting with Rosy's case, where the *Leader* is characterised by a SEW orientation, even if she doesn't perceive as failure if her son decides to not enter into the family firm activity, we could say that an opposite tendency is perceived if a family member and also a non-family member decides to exit. Particular and interesting are the cases of the non-family members. When Rosy talked about them during the interview, she perceived them as members adopted of her family e.g.:

- «... I cannot pay my girls [my employees] ...» or
- «... when the crisis arrived, we decided to decrease our salaries, to avoid losing one of us [for impossibility to pay all the salaries of family and non-family members]...».

A completely different situation appears with Beta case. In fact, Giacomo has no SEW orientation, and he doesn't care about the entrance or exit of family members. He highlighted that family members should enter in the family business only if they had the capabilities to make the difference inside the company, therefore:

- they «... have the right stuff...» to create value, otherwise,
- if they are inside they «... are a cost for the firm which disrupt value or create confusion...».

Another Leader that supports Giacomo's idea is Eddy; in fact he said that in his business, his sister works with him but with a different role and her positions was assigned not because of her being a family member, but because of her having "the right stuff". However, in a hypothetical situation that she is not performing anymore, he prefers to fire her sister. In other words, he prefers to put the business before the family.

Trying to analyse the above situations with a literature prospect, knowing that family members have diverse priorities in terms of dimensions of the SEW (Shepherd, 2017): *Followers* may feel in a state of psychological disappointment, if *Leader* takes an action which decrease the SEW's dimension/s important for *Followers* and not for *Leaders*. At the end of this situation, *Followers* may decide to persist or exit. Their behavior will depend on the level of the loss of the SEW's dimension/s: higher will be the loss, higher will be the probability that *Followers* take an exit choice (Shepherd, 2017). Knowing that SEW of family firm is the sum of each emotional endowment (Shepherd, 2017), if *Follower* takes an exit choice, firm's SEW decrease.

Combining what has emerged from the cases and the connected literature; we propose that:

Proposition 1a: When family business leader is SEW oriented, a positive relation exists between leader's perceived psychological failure (PPF) and follower's exit from family firm.

Proposition 1b: When family business leader is not SEW oriented, no relation exists between leader's perceived psychological failure (PPF) and follower's exit from family firm.

### *Second (II) and Third contexts (III) – Success or Failure of a Project*

Following after the steps of entrepreneurial actions, in the adapted Shepherd's process model (2017) two different contexts characterized by the success or the failure of the project are presented.

An interesting relation that is highlighted from the cases is: how the different *Leader's* hierarchical position of the SEW dimensions change the weight loss perception of each dimension. For example, in the case of Luca, the hypothetical scenario of a loss in term of reputation, was considered the worst scenario that may happened, in fact, if there are no ways to safeguard this dimension, if he could choose a possible strategy, he would opt for an exit strategy ( *Exit to escape to avoid failure*: 4 over 5). While the previous scenario was considered scaring by Luca, the scenario that he might lose control, even if it was always valued 4 over 5 was not seen as a real threat. In Rosy's case, it is possible to see how successional dimension, considered as the less important, positively affects to non-evaluation as failure of non-participation and not manifested interest to participate to family firm activity of her son.

Therefore, success or failure leads to a gain or a loss, respectively, of SEW of the family business. These different situations may be considered as two different contexts that evidence how a gain or a loss of each dimension impacts on the *Leader's* perception of the situation considered, even if, an important role is played by individual priorities in term of SEW dimensions (Shepherd, 2017). Knowing that a positive/negative variation of one or more dimensions of the SEW, may lead to a negative/positive variation of one or more of the other dimensions (Chua, 2015).

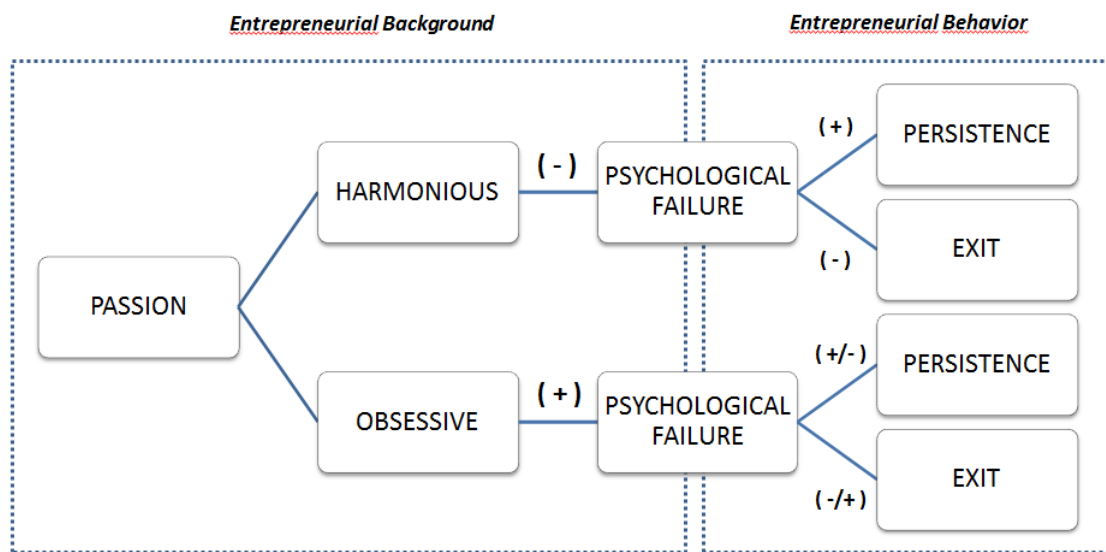
A theoretical example of how the SEW's dimensions don't move in the same direction has been conceptualized by Cruz, Larraza-Kintana, Garcés-Galdeano and Berrone (2014); family firm can simultaneously be good and bad such as in terms of social practices. Combining what is emerged from the cases and the connected literature; we propose that:

Proposition 2: The hierarchical position of the SEW's dimensions moderate positively/negatively the relation between the variation of the dimension considered and the leader's perceived psychological failure.

### 3.7.2 The Relationship between Passion and Entrepreneurial Failure

The second relation that emerged by the cases regards the relation between FLO and passion. Thanks the use of a questionnaire with two clusters of items: harmonious passion and obsessive passion; from the empirical data emerged a model which connecting: the entrepreneurial passion with the psychological failure; and, the perception of a psychological failure with the behavior that a member, characterized by HP or OP, of a family firm will adopt (Figure 8 ).

Figure 8 Full mediation model - Passion



Source: adapted by Tognazzo et al. (2014)

#### *Entrepreneurial Background: the relation between Passion and Psychological Failure*

In the case of Luca, that presents a higher HP (4 over 5) than OP (3.3 over 5), it is possible to identify how this element help him to decrease the perception of psychological failure. In fact, we can split the psychological failure in two clusters: work-related psychological failure and family-related psychological failure; the first disappointment, thanks to HP, is hardly achievable as he low rated (2 over 5) the following belief: «I couldn't live without my business! My life would be meaningless if I wouldn't do this job». As regards to the second cluster, HP allows the Leader not to consider the difficulties to opt easily for an exit strategy if values such as the family one, may be negative affected. Thus, knowing that he easily could resolve this psychological disappointment, in the interview emerged that is not considered as a real problem for him. As Luca's

case, also Eddy's case suggests us how he could be low-emotionally attached to the business if he perceives failure, and he believes that there are no way to adjust the situation. Even if, during the interview emerged which situations he may perceive failure, he underlined frequently that «...if you believe in your strategical convictions...a bad situation is only a step to achieve your aims...» Another interesting case, even if it is characterized by a medium level of passion (2.6 over 5) towards the family's activity, is the Giacomo's one which shows. His OP towards his activity brings him to focus on short-term objectives and this, as he suggested during the interview, goes to increase:

- his fear not to achieve a sustainable business;
- his obsession for what it hasn't been done;
- his monthly depression for the not achieved KPI results.

Therefore, it is possible to see how his OP affects negatively his failure's perception; in fact, the score given to the item: *state of disappointment if his threshold aims are not achieved* (4 over 5) is as high as the fear of the perception of objective economical failure. Also, the *Leader* of Delta s.n.c. is heavily affected by high level of OP (4.29 over 3.43) which type of passion may be explained with this her statement: «.I felt that the family firm was as a brother...the factory was my recreation area..» .

Looking at all levels of HP and OP, it is possible to view, how an increase of HP induces a decrease of perceived psychological failure (PPF); while, an increase of OP induces an increase of PPF (Table 4).

Table 4 *Passion and Psychological Perceived Failure*

CASE STUDY	HARMONIUS PASSION	OBSESSIVE PASSION	PSYCHOLOGICAL PERCEIVED FAILURE
<i>Alfa</i>	4,00	3,29	3,33
<i>Beta</i>	2,43	2,71	2,33
<i>Gamma</i>	3,86	2,71	3,67
<i>Delta</i>	3,43	4,29	3,67

Analyzing the relation between passion and entrepreneurial failure, under literature prospects, it is better to split the passion dimension in: HP and OP. Concerning the first aspect, a person, or in our case, a family member, with HP for his/her works, can choose to engage in the activity he/she loves and is in controls of his/her engagement with his/her works. In other words, his/her works activity (in the family firm) occupies a significant but not overpowering space in his/her identity. This aspect goes to create har-



mony with other aspects of the family members life. Furthermore, entrepreneurs with a high level of HP are characterized by: lower loss of motivation than entrepreneurs with lower level of HP; positive future expectation; higher negative feeling about the future (which may decrease the threshold expectation of the family member). Knowing that HP goes to affect positively the subjective evaluation of career success, this may be seen in a family firm context that, due to the family firm is characterized by SEW, career success point of view, is replaced by family firm success. Therefore, the combination of these characteristic help entrepreneur (the family member in our context), to achieve more hardly a state of psychological disappointment. Combining what is emerged from the cases and the connected literature; we propose that:

Proposition 3a: There is a negative relation between HP and leader's perceived psychological failure.

What concern the OP, it is characterized by an opposite logic of HP, in fact, higher will be the OP, lower will be: the positive future expectation and the negative feeling about the future. Furthermore, higher will be the internal and/or external pressures, higher will be the probability that the family member, characterized by OP, perceive a state of disappointment. Thus, we propose:

Proposition 3b: There is a positive relation between OP and leader's perceived psychological failure.

### *Entrepreneurial Behavior: What happens after Psychological Failure*

Luca, as reported above, shows a high satisfaction (4.6 over 5) about the career life course; this element and the relation with what failure is for him, suggest that exists a positive relation between persistence strategy and the perception of failure. As he indirectly suggests us, the failure perception inspire him, thanks to a positive self-positive perception in terms of capabilities and skills, to persist with the family firm's activity and to find a way to eliminate this psychological disappointment. The only two hypothesis for which he is constrained to take an exit strategy are:

- Family safety. «..if the exit choice is the only way to safeguard my family, I will exit!»;
- The knowledge that there is no way to save the family firm. «It is very hard to exit, even if I'm afraid».

A persistence strategy could be seen also with Eddy's case. As the above *Leader's* level of satisfaction and passion have high rating, 4 over 5 and 3.9 over 5, respectively. Differently from Luca, he prefers to persist with the firm's activities even if he could perceive a state of psychological disappointment about work-family balance.

Looking to the information collected from the interview of the *Leader* of Delta s.n.c., it is possible to highlight that she presented the higher score of persistence in case of failure perception, except in the case where work-family balance could be negatively affected by same family activity. This behavior may be justified by this statement of Rosy:

«...for those who are used to work since young age, [lose your firm/job] means depriving yourselves of all things. You lose all thing until the only way to survive is to depend on someone».

Analyzing this phenomenon under the literature prospect, after the perception of psychological failure, family member may choose exit or persistence decision; as Khelil note (2016), exit choice is more preferable when it doesn't exist any psychological support; however, as Shepherd (2009) stated, family helps to gain this support, inducing to adopt a persistence behavior. Further, Cardon, Wincent, Singh and Drnovsek (2009), defined a positive relationship between entrepreneurial behaviors, such as absorbing and persistence, with passion; thus we hypothesize:

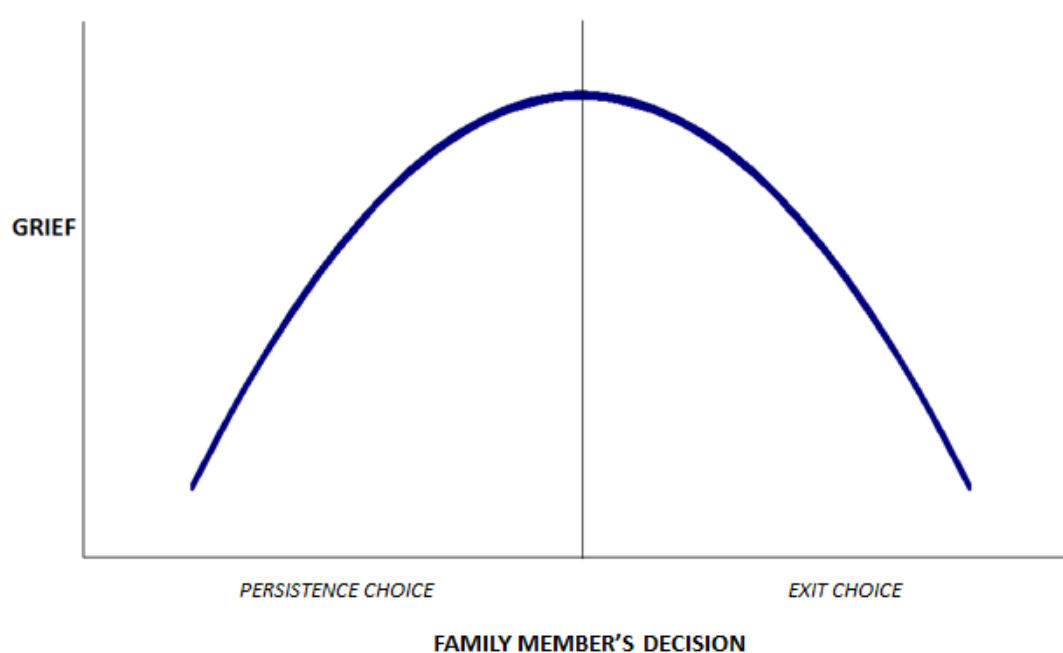
Proposition 4: When a family business leader perceives psychological failure, a positive relation exists between passion and persistence strategy.

As suggested by different authors, family members will adopt persistence behavior thanks to family support and thanks to passion factor; however, there are some interesting elements that may highlight an exit choice in the case of OP. Differently than HP, where the person has a sense of control toward the activities (inside the family firm), the OP goes to heavily influence the person. In fact, family firm life controls the person. So, OP person come to a point at which they persist even when family business underperforms (Gimeno, Folta, Cooper and Woo, 1997). However, under OP, it's like the person hasn't got anymore his/her personal life but his/her activity inside the family firm becomes the center of his/her life; leading to: conflicts with other activities (Parasuraman, Purohit, Godshalk and Beutell, 1996); stress reactions (Cooper and Dunkelberg, 1986);

and other personal consequences such as increased disappointment (Markman, Baron and Balkin, 2005). Moreover, as suggested by Rutherford and Kuratko (2016), higher is the level of grief, which is a negative emotional response to the loss (Shepherd, 2003), caused by the phenomenon of entrepreneurial failure of family firm, lower will be the FLO. A lower level of FLO may lead to a lower family support, so an increased probability to not adopt persistence but to choose the exit option; further, grief goes to affect negatively family member's motivation through the generation of a sense of «*helplessness*» (Shepherd, 2003). The sense of «*helplessness*», has similar effects of «*hopelessness*», which are: the decrease of a person's beliefs in his/her ability to undertake specific tasks with success in the future and the rumination that hinders task performance (Shepherd, 2003). Thus, we propose:

Proposition 5: The level of grief affects the relation between OP and persistence/exit strategy. (Figure 9)

Figure 9 Family member's decision – the relation between the level of grief and person's behavior



### 3.8 Limitations and future research

We identify as limitation of the present study that the cases considered were only four. However, the *snowball sampling*, which is the sampling method used in our research to collect data, as stated by Heckathorn and Cameron (2017):

«[it is a method] for drawing statistically valid samples of hard-to-reach populations [or in other words, valid samples to hidden population]»

Moreover, as suggested by Sight et al. (2015), it is a valid structured sampling method that is useful to analyse entrepreneurial failure issues. Additionally, as above stated, our study is one of the first researches that connects the concept of the entrepreneurial failure with family firm issues. Thus, in conclusion, our effort was to put together the specific literature regarding family business (more precisely regarding on the SEW and the Passion) in order to focus on the topic of entrepreneurial failure.

For future research, the proposition that we defined in this chapter, will be applied on a significant sample and on the database and the information that will be collected by the authorities responsible for administering the Fondo Serenella, which will be argued in the following chapter.

## ENTREPRENEURIAL FAILURES: BEHAVIORS AND INSTITUTIONS

### 4.1 Introduction

In this chapter we will go to analyze some topics which offer a wider perspective about the model developed in the third chapter. These topics have the aim to strengthen the suggested model. Thus, we will start from focusing on the topic of entrepreneurial behaviors and after that we will introduce two issues related to institutions.

### 4.2 How Entrepreneurial Orientation in Family Firms affects Failure

According to Lumpkin and Dess (1996), Entrepreneurial Orientation (EO) goes to describe how entrepreneurship is undertaken. Therefore, EO refers to the key entrepreneurial processes, intended as the methods, practices and decision-making styles managers use to lead to entrepreneurship. These embed such process as being willing to seize new product or market opportunities, experimenting with promising new technologies and having a predisposition to undertake risky ventures. Lumpkin et al. (1996) identified five keys EO dimensions: *risk taking, proactiveness, innovativeness, competitive aggressiveness and autonomy*; each of these items is independent but part of this multidimensional framework.

By definition:

- Risk Taking refers to the dimension in which a person has a tendency to engage in risky projects and takes bold actions (Miller's definition re-adapted at individual level, 1983);
- Proactiveness is the ability to appreciate market opportunities, by seizing initiatives and acting opportunistically in order to shape the environment. In other words, this

concept is based on the ability to meet demand through introducing new products/services and anticipating the future demand instead of the current demand, which is more related with the dimension of competitive aggressiveness (Lumpkin et al., 1996);

- Innovativeness, readapting the definition of Lumpkin et al. (1996) - characterized by a firm level - to an individual level, refers to the propensity to promote and support actions in terms of ideas, experimentation, novelty and creative processes that lead to new outcomes and processes;
- Competitive aggressiveness, as previously briefly defined, is based on the capacity and responsiveness to unconventionally reactions which lead to support firm's actions in order to enter a new market or to improve the position of the firm among existing rivals (Lumpkin et al., 1996);
- Autonomy refers to the ability owned by a team or an individual to act autonomously, independently making decisions, promoting new ideas and proceeding without organizational boundaries (Lumpkin et al, 1996).

In the context of family firms, literature investigates the EO under different aspects; in fact, some studies demonstrate how the EO dimensions are influenced by the family's features and values such as Cruz and Nordqvist (2012) stated, where they demonstrate the correlation between external factors and EO, which the strangeness of the correlation depend on the generation in charge. Moreover, as stated by Zellweger, Mühlebach and Sieger (2010), the long term success of the family business could be achieved only with the right level of EO at the right time; furthermore its composition depends on the role of the family. On the other side of the coin, we could find another perspective which suggests that the desire to protect family SEW and financial endowment leads family business owners to become too conservative in taking risks associated with entrepreneurship (Naldi et al., 2007). These controversial findings have led authors to ask to what extent current corporate venturing models are relevant to family-controlled enterprises under two different perspectives: family owned and family managed firms.

As suggested by strategic management literature, the EO, with all its dimensions, plays a key role for achieving higher firm performance (Shepherd, 2003); however, differently from non-family firms, EO effects on family firms are not always straightforward (Lumpkin et al., 2010).

Taking into account:

- how the interaction of the family and business subsystem creates a large diversity of organizational goals (Kotlar and De Massis, 2013);
- and, the potential different points of view of family members about the objectives and the strategic priorities of the organization;

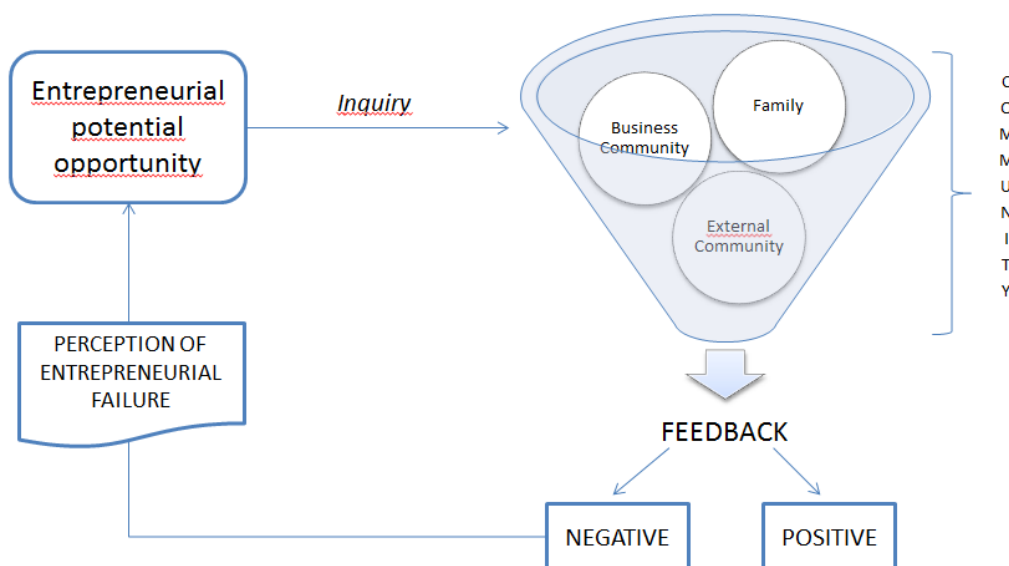
SEW, through the identification of the dimensions, goes to reduce this diversity to achieve a basic consensus around goals to pursue and the way to achieve them, creating an organizational commitment to family centered goals. This identification is enhanced by family harmony in terms of open communication, intergeneration attention and cohesion (Cabrera-Suaréz, Déniz-Déniz and Martín-Santana, 2014). Furthermore, in family managed firms, as the influence of the family increases, mental models within the organization are likely to become more rigid (Gomez Mejia et al., 2001).

However, the identification and the pursue of a potential opportunity, in the field of corporate entrepreneurship, usually follows the need for renewal of organizational structures and processes (Davis and Stern, 1988). This implicates proactiveness, innovativeness and risk taking which may erode collective identification with company policies (Dess, Ireland, Zahra, Floyd, Janney and Lane, 2003). Therefore, knowing that entrepreneurial strategies go to modify the organizational status quo, family members figure as reluctant against these change adopting a conservative behavior (Vago, 2004).

In other words, the entrepreneurial oriented family members and/or managers may erode collective commitment to family-centered goals, this because EO introduce a source of heterogeneity among family members; upon which, this heterogeneity may induce to conflicts, as some of the family members see it as a threat (Kellerman and Edleston, 2006). Moreover, these conflicts may expand from professional to personal and familial relationships (Chirico, Sciascia and Mazzola, 2011), giving rise to obstructing debates and collaborative exchanges of divergent points of view; thus, in the process of inquiry, by a family member or a sub-group of family members, of an entrepreneurial potential opportunity to the firm's community (which is composed by: business community, family and external community), the EO goes to increase the probability that family members will reply with a negative feedback (Figure 10). Consequently, we propose:

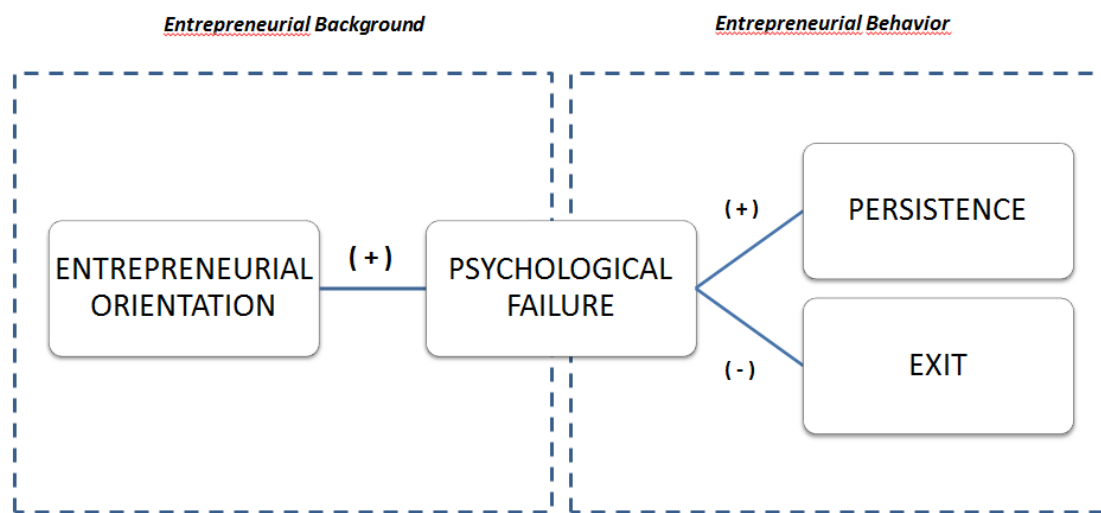
Proposition 6: There is a positive relation between EO and leader’s perceived psychological failure. (Figure 11- Entrepreneurial Background)

Figure 10 A sketch of an opportunity-based perspective of family business interactions



Source: adapted by Shepherd (2017)

Figure 11 Full mediation model - EO



In the second part of the model, which links the psychological failure to the behavior of the failed family member/s, exit choice is used when in the considered context economic and psychological supports are not present (Khelil, 2016). However, according to Shepherd (2009), in family firms, entrepreneurs have a psychological support which is the family itself. Moreover, knowing that in family firms the family members involved



in management invest huge personal resources, they are more likely to accept lower performance thresholds in order to avoid or postponed failure (DeTienne et al., 2008). Thus, we propose:

Proposition 7: There is a positive relation between the perception of cost of failure (considered in terms of SEW) and leader's persistence strategy.  
(Figure 11 - Entrepreneurial Behavior)

### **4.3 Fondo Serenella**

*Fondo Serenella* is a fund for the SMEs victims of non-payment by other firms. It was introduced in the 2016 by the Stability Law. It was established an amount of thirty million euros, which will cover the three years 2016-2018.

The fund was born due to Serenella's requests: she tried to put together all the other district's suppliers to try to do something against the thief firm, even if, most of them didn't participate and responded «we are in Italy! Forget it!». Only few of them participated, and thanks the support of the lawyer Claudia Murador, they filed a lawsuit against this firm that damaged them. The judge found the defendant not guilty because of lack of evidence.

All the events, that characterized her dramatic fate, are reported in her book titled "Io non voglio fallire", which triggered a positive reaction of MISE and MEF because they identified that the story of Antoniazzi was common to many other firms. Even if the fund goes to help the firms in financial and liquidity distress, it is not a real instrument that helps the damaged firms, but it was introduced as an incentive to declare which are the firms that in bad faith don't pay the SMEs. As stated by Antoniazzi:.

«... the actual Italian system, managed in the same way the victim [the damaged firm] and the thief [the entrepreneur with bad faith which caused the damage for the victim]... this created a general widespread resignation».

On April 2017 was activated the possibility to access to the funds expected by the Stability Law 2016.

#### 4.4 Social Stigma and Personal Stigma: a general overview

According to Serenella's case, it is possible to highlight how the social stigma affected her perceived psychological failure. As she stated during an interview:

«...[when AGA had liquidity problems and was impossible to pay family firm's employees] my dad didn't attend the church services on Sunday, because he was ashamed...».

Thus, this example suggests us that stigma plays an important role in entrepreneurial failure. However, a positive perspective is given to the role of stigma by the entrepreneurial literature, in fact, many authors suggested a positive relation between the stigma and the potential loss that the society has to face (Hyytinen and Ilmakunnas, 2007). Additionally, as Hyytinen et al. note (2007), the entrepreneurial failure is defined as a key driver to the evolution of industries and markets, therefore an essential element for a dynamic ecosystem. Consequently, the main reasons that failure could enhance social wealth are the releasing of knowledge and resources from the failed firm to the new one. However, this is not always true, indeed, if the level of stigma and failure costs are too high, the failed entrepreneurs may decide to leave definitely their entrepreneurial career and the society will be subject to a loss of wealth.

Another important loss that stigma may imply, is the persons loss. In many cases, suicide by entrepreneurs are due to the entrepreneurial failure and the related stigma. In fact, taking into consideration the individual level of analysis, stigma may create or enhance psychological cost of failure and social cost of failure. According to Shepherd (2003), stigma can negatively affect different aspects that characterize the entrepreneurial world. For example, it can decrease the level of self-confidence, discredit relationships with shareholders and drastically reduce the labor market potential.

##### 4.4.1 Entrepreneurial Failure and the *weight* of stigma

According to Wiesenfeld, Wurthmann et al.'s definition (2008), stigma could be defined as:

*«the denigration or stain the person experiences, which negatively impacts his or her image and reputation».*

Some interesting issues connected with stigma are:

- The positive connection, given by the community prospect, between firm failure and its entrepreneur; which connection is subsequently translated as stigmatization process of the entrepreneur (Simmons & Wiklund, 2011; Wiesenfeld et al., 2008);
- The leverage effect to the stigmatization's process by the main media. In fact, they go to strengthen the entrepreneur's perception of stigma, by focusing their report on the same stigmatization process (Cardon, Stevens, & Potter, 2011).

### *Typology of stigma*

Stigma is mainly studied and discussed in the psychological researches that refers to a variety of life contexts like mental illness (Markowitz, 1998), where the principal aims of the studies are to identify the nature of stigma, its impact and the coping strategies used to deal with it (Roca, 2010).

Stigma can be divided in two different types, characterized by the principal source of the stigma: the public stigma and the personal stigma (Corrigan et al., 2010). *Public/social stigma* is the general population prejudice and the manifestation of this prejudice towards the entrepreneurial failure. More in deeply, towards the failed entrepreneur. On the contrary, *personal stigma* is a combination of: the perceived stigma, the experienced stigma and self-stigma (Gerlinger et al., 2013).

### *Typology of Stigmatization Process*

The stigmatization of an entrepreneur may arise:

- *Externally*, that means the stigmatization process arise with the failure of the firm because the point of view used is the societal one. In this process the social stigma will be the catalyst of the personal stigma.
- *Internally*, that means the stigmatization process may arise before or after the failure of the firm because the point of view used is the entrepreneurial one. In this process the catalyst could be the personal stigma or the social stigma.

#### 4.4.2 Personal Stigma and Personal Experience of Stigmatization Process

Ceteris paribus, if an entrepreneur fails, the personal consequences of failure will be different with different personal stigma (Hasbun, 2012). An example of these consequences, may be the case of suicide of Ilya Zhitomirskiy, cofounder of Diaspora:

*«failure is one thing when you have a track record of success and a wide network of contacts; its quite another when you're 22, just out of college, far from your family and friends, and completely green».*

Therefore, another point of view of psychological entrepreneurial failure, could be obtained utilizing the concept of personal stigma. It suggests a structured method to analyze the psychological perception of failure through personal stigma's dimensions (Sight et al., 2015). Personal stigma dimensions are: perception of stigma, experienced stigma and self-stigma.

### *Perceived stigma*

The perception of stigma is about the link between entrepreneur's beliefs about attitudes of the community towards their *condition* and towards *themselves* as members of a potentially stigmatized group: the failed entrepreneurs. Thus, stigma may affect each entrepreneur in different ways; in fact, the schemas that entrepreneurs use to make sense of community's attitudes, are based on past experiences and knowledge.

### *Experienced stigma*

That element is the easiest to observe, due to the fact that it refers to real and immediate experienced of discrimination/restrictions that entrepreneurs face. An example could be the difficulties for failed entrepreneurs to obtain financing from banks.

### *Self-stigma*

Finally, self-stigma covers the concept of adoption and internalization of stigmatizing view. According to Corrigan et al. (2010), self-stigma happens when a person discredits himself/herself, thereby endorsing the negative beliefs held by society. Therefore, we can say that self-stigma for an entrepreneur is a sort of identity transformation that can lead to the loss of previously positive beliefs about the self-esteem and self-efficacy. Many entrepreneurs see their firm like the extensions of themselves (Shepherd et al., 2009) for that reason self-stigma may occur if their venture fail (Cardon et al., 2005). The entrepreneur's self-stigma is correlated with the experienced stigma and the perceived stigma. Higher will be the discrimination/restrictions and/or entrepreneur's perception of stigma, worse will be the impact to self-beliefs.

### *The Personal Stigmatization Process*

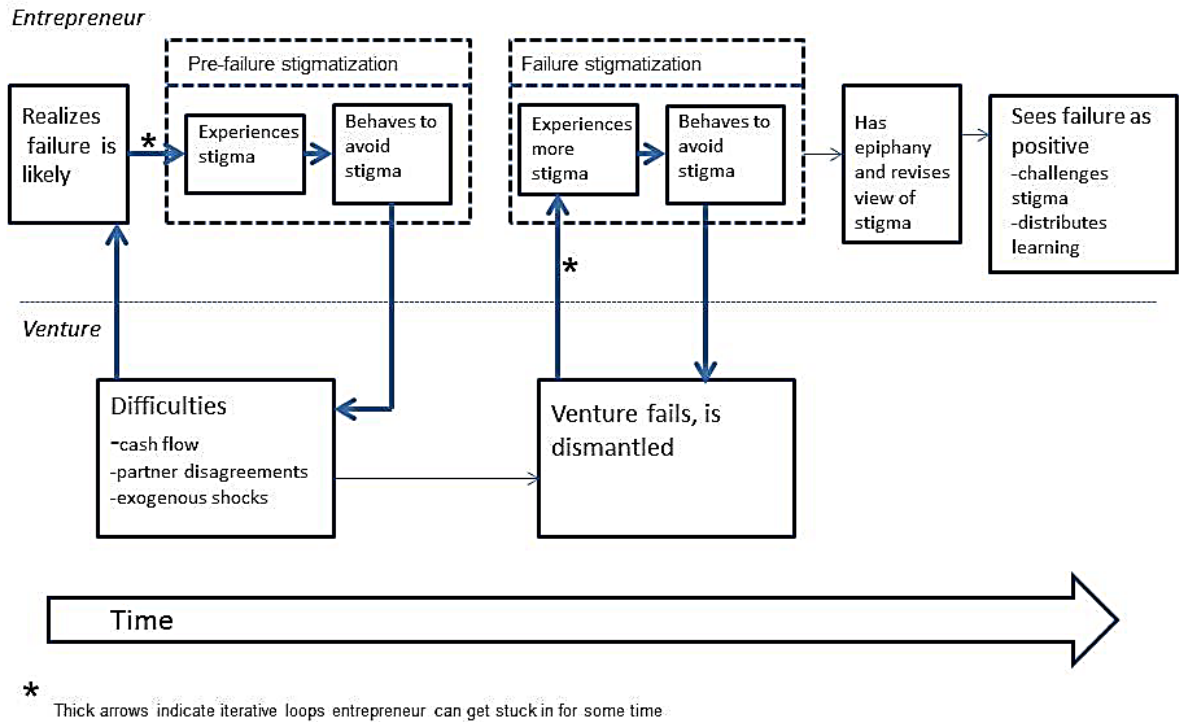
This process is characterized by a stigmatization that unfolds over time rather than a label.

According to Sigh et al. (2015) and Selden et al. (2010), the personal stigmatization process, can be divided into three progressing phases that are *complication of situation*, *climax* and *resolution* (Figure 12).

- In the first phase, called also *anticipating failure*, entrepreneurs are able to see and experience the potential and imminent failure, caused by the presences of potential irresolvable problems such as legal problems, liquidity problems or partnership issues. Entrepreneurs try to prevent the firm from failing and they see this phase as highly stressful and challenging with negative personal consequences such as panic attacks, hospitalization and suicidal thoughts. The negative personal consequences are triggered by a self-stigmatization where they « castigate themselves » and « expecting negative judgments ». Usual phrases that entrepreneurs used to express this self-stigmatization are: « I was beginning to feel like a loser », « I'm feeling so stupid », « I will lose mum's money », « I started something that I couldn't make work », « I'm feeling threatened by creditors reactions » (Sigh et al., 2015). So, the entrepreneur's perceptions of others, are characterized by harsh opinions and poor supports, mainly affected by their perception of the extent of social stigma.
- In the second step, there is the realization of failure event and during this period entrepreneurs experience failure in all its aspects and therefore are involved with discounting business, dissolving partnerships and so on. The main perception that entrepreneur faces is *ostracism* that reflects social stigma from multiple groups, the first of which are the bankers. The subsequent consequence of social stigma for the entrepreneur, is the perception of stigma and after that, the self-stigmatization where he/she reduces faith of his/her faith abilities such as to make good decisions about business and of his/her own future.
- The third phase is characterized by a transforming of failure perceived as a negative experience affected by social stigma, into a failure perceived as a positive experience. In the model the passage between negative experience to positive experience is called *epiphany*. This model with the last phase of the process, goes against many authors (e.g. Ucbasaran et al., 2013; Cardon et al., 2011) where they suggest the dif-

faculty/impossibility for failed entrepreneur to view failure as a positive life experience.

Figure 12 A process of entrepreneurial failure stigmatization and transformation



Source: Sight et al., 2015.

#### 4.4.3 Actors of Social Stigma and the Social Stigmatization Process

In a society, the individuals that are legitimate to analyze and to make statements about the reasons of the entrepreneurial failure are called, by Wiesenfeld et al. (2008), *arbiters*. They play an important role in determining the extent to which an entrepreneur is stigmatized. They play also another important role in the community, in fact they are the first source of dissemination of the information about the stigmatization of the entrepreneurs.

Three categories of arbiters that are all involved in the stigmatization process exist. These are *social arbiters*, *legal arbiters* and *economic arbiters*.

- Social arbiters influence public opinion through their legitimate platforms which could be the press, activists and academics.
- Legal arbiters are all the people involved to make decisions on the legal side of the failure and they can be judges, prosecutors, juries and regulatory officials.

- Lastly, the economic arbiters are those who have to make decisions concerning going into economic exchange with the stigmatized entrepreneurs; they are employers, directors, executives and venture capitalists.

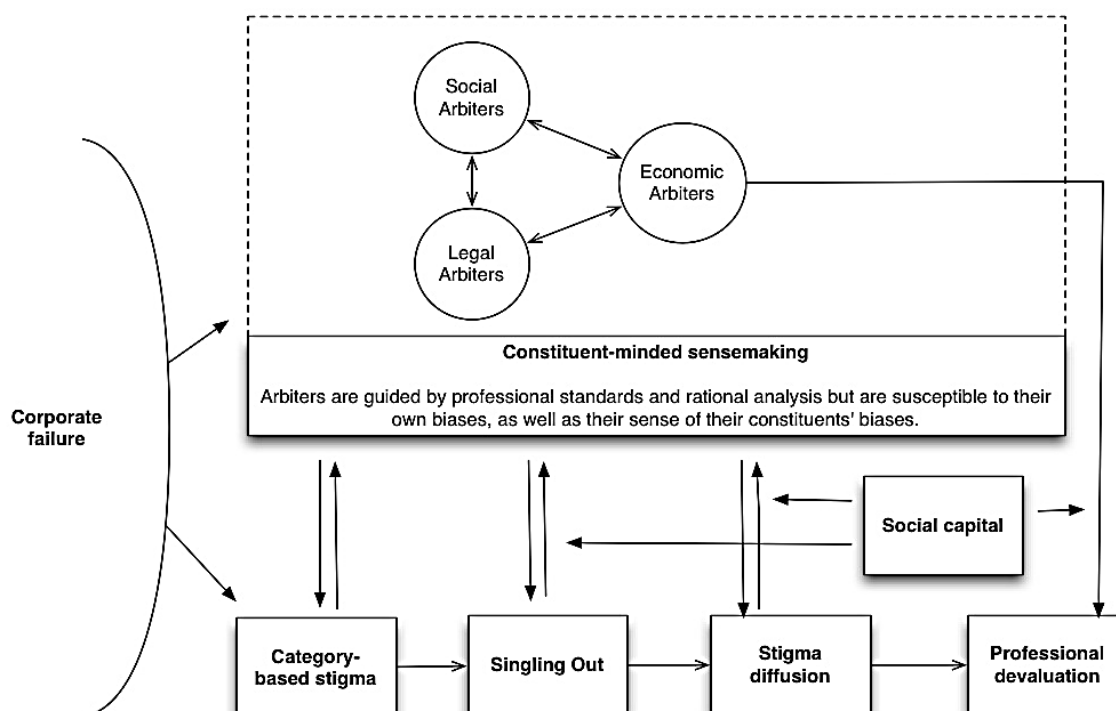
The main factors that negatively affect the judgments of arbiters towards entrepreneurs are the cognitive, affective, motivational and social factors. Some examples could be: the fundamental attributional error, that suggests that arbiters will look for internal, simple and stable attributions for contexts that may be more complex (Ross, 1977; Meindl et al., 1985); violation of social norms or threaten cherished values and the social order (Tetlock, 2002).

According to Cardon et al., (2011), the main form of reporting of entrepreneurial failure in newspapers has the aim to create a sort of sense of stigma around failed entrepreneurs. This type of publicity, based by *scoop concept*, promoted by journalists to obtain higher level of audience, create a sort of mechanism in which the event of failure is made public and increase the likelihood that entrepreneur experiences stigma.

According to Wiesenfeld et al. (2008), the process of stigmatization begins with the failure of the firm and after that we can find different steps which are: *Category Based Stigma*, to *Singling Out* towards the *Stigma Diffusion* and lastly the *Professional Devaluation* (Figure 13).

In the step of stigma diffusion, is possible to find two different characterizing elements. These are the *piling on* and the *blanketing*; in the first one, the mass media reports the entrepreneur's defects many times for different audiences. The blanketing consists of the activity to report the list of the entrepreneur's faults.

Figure 13 Model for the development and diffusion of stigma arising from firm's failure



Source: Wiesenfel et al., 2008

#### 4.4.4 Determinants of Social Stigma

Landier (2005) suggests us that:

«If you start a company in London or Paris and go bust, you have just ruined your future; do it in Silicon Valley and you have simply completed your entrepreneurial training»

stigma has different weight depending on the country taking into consideration. Therefore, according to Fornahl and Menzel (2003), stigma occurs when in a community doesn't exist or partially exists the social legitimation of the entrepreneurial career. Indeed, individuals will perceive as attractive the option to take up entrepreneurial career if in the community exists a high social legitimation towards this career choice. Thus, the entrepreneurial literature suggests a negative relation between social legitimation towards entrepreneurship and social stigma.

An example that gives us the opportunity to verify this negative correlation, is reported in the research of Vaillant et al. (2007), where they identify that belief in the social stigma of entrepreneurial failure reduce drastically the entrepreneurial activity in Spain.



Many researchers analyze the national and the social environment to better understand the phenomenon of nascent entrepreneurship or entrepreneurial role models (e.g. Niels et al., 2010; Saade, 2013); these studies, suggest us to identify the national and social environmental determinants to better understand why stigma varies from one national culture to another. Some researchers in their empirical analysis found for example that shame for failure is stronger for entrepreneurs located in East Asia countries than Anglo countries (Begley and Tan, 2001). Furthermore, is important to take into consideration the economic and the legislative environments (so the formal rules of the institutional norms); in fact, they enhance or decrease the tolerance towards entrepreneurial failure due to the fact that societal mechanisms operate through formal and informal institutions that are conditioned and constructed by cultural preference (Witt et al., 2008)

For a deepening future research, we suggest to analyze the differences between clusters/regions, without adopting a national level of analysis, to better understand the determinants of social stigma. Indeed each region/cluster has different shared meanings and social perceptions of economic behavior originated from a different regional development of cognitive, normative and regulative contexts (Gertler, 2010; Rodriguez-Pose, 2013; Scott, 1995; Suchmann, 1995). As Waldman (1999) stated:

*« each subculture in American life... seems to have its own code of failure: what kinds are acceptable, how to treat those who fail, rules that protect the status of the subculture and its members. Where Silicon Valley exalts failure, Wall Street punish it ruthlessly».*

The importance of region analysis is highlighted also by Landier (2005), in fact, in his research he identifies a correlation between location (region) and stigma of failure.

Moreover, the shared mental models (Denzau and North, 1994) can potentially define and affect the individual perceptions and interpretation of the signals of entrepreneurial failure influencing therefore his/her behavior.



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