A Study on the Influence of Entrepreneurial Failure on Risk Decision Making in Subsequent Entrepreneurship

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Abstract. The costs of entrepreneurial failure generated in the occurrence of entrepreneurial failure. As the inevitable outcome of entrepreneurial failure, the failure costs influence the risk decision making in subsequent entrepreneurship. Based on the existing entrepreneurial failure research literature, the costs of entrepreneurial failure, entrepreneurial self-efficacy and risk decision making are all clearly defined. In addition, we study the influence of failure costs on risk decision making by introducing the moderating effect of entrepreneurial self-efficacy. The mechanism of action is not only discussed, but also the theoretical model is established. These theoretical bases are stabile foundation for the future empirical research.

Introduction

Under the strong support of the country's policy, the entrepreneurial environment is getting better in China. Entrepreneur, as a new status, is booming. However, there are high risks in entrepreneurial activities, which brings challenges to the entrepreneurs. It's not always peaceful, although entrepreneurship is good. Due to liability of newness and other reasons, the high failure rate of entrepreneurship is still an indisputable fact[1]. Is entrepreneurial failure a bad thing? Entrepreneurs who have experienced failure will back into employment? Some scholars believed that entrepreneurial failure brought valuable learning opportunities to entrepreneurs and had positive impacts for subsequent entrepreneurial activities. They could learn lessons from it, and then improved the success rate of re-starting business[2]. Other scholars held the opposite view that entrepreneurial failure was likely to bring unprecedented strikes, which led entrepreneurs paralyzed[3]. There is no sufficient evidence shows that the success rate of subsequent entrepreneurship is higher than novice entrepreneurship now, but relevant research has shown serial entrepreneur has become a group that cannot be ignored in entrepreneurial activities. Therefore, whether in theory or from a practical perspective, it’s significative to study the influence of failure on subsequent entrepreneurship. Risk decision making is an important part of entrepreneurial risk management activities and is also the key to success. Decision makers need to objectively evaluate the uncertainty factors and then make full use of the information structure from the environment to obtain a satisfactory result. Entrepreneurship is full of twists and turns. The complexity that appears on the failure leads to the difficulty in measuring the costs of entrepreneurial failure. So that the influence of the failure costs on the subsequent entrepreneurial risk decision making is controversial. Therefore, it deserves our special attention and penetrating research.

In the process of entrepreneurship, there are many risks and uncertainties. So far, there yet is not any agreement on the influence of entrepreneurial failure on subsequent entrepreneurship. It’s vital that we cannot ignore the roles that cognitive characteristics of entrepreneurs play in exploring the influence on risk decisions. Under the venture contexts, entrepreneurial self-efficacy as the individual's judgment and evaluation based on his ability to conduct entrepreneurial behavior can affect the relationship between environmental and behavior[4]. Entrepreneurs with high self-efficacy are more likely to identify and utilize resources and support from the environment. While, people with low self-efficacy face a good entrepreneurial environment, may still insist on risk avoidance. It’s
necessary to probe into the mechanism of entrepreneurial self-efficacy in entrepreneurial activities from the cognitive perspective. Therefore, based on social cognitive theory, the paper constructs a theoretical model to study the relationship among the costs of entrepreneurial failure, entrepreneurial self-efficacy and risk decision making in subsequent entrepreneurship.

Literature Review

Risk Decision Making

As scholars get deeper into the research of risk decision making, the connotation of risk decision making has also changed accordingly. Some people thought it was a process to find the optimal option. For example, Yates and Stones proposed three conditions for preferential screening: the profit and loss, the severity of profit and loss, and the level of uncertainty. Later, scholars eliminated the optimal rule and considered that risk decision making was such a process that people made decisions by balancing the value of all possible outcomes. Because decision makers are often boundedly rational, they don’t always spend more time and energy to select the most optimal option. The limitation of real conditions will also interfere with the optimal choice. Therefore, decision makers generally seek to achieve satisfactory results. Satisfaction criterias are not the same as the optimal standards. Satisfaction is the near-best or relatively best standard. So, this paper defines risk decision as that the decision makers estimate the probability of each option under the condition of mastering certain information materials and then select the most satisfactory program.

Entrepreneurial Failure

In the study of entrepreneurial failure, scholars defined it from different perspectives, mainly about objective, result, and failure reason, which are shown in table1:

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Author</th>
<th>Definition</th>
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<tbody>
<tr>
<td>objective</td>
<td>McGrath(1999)</td>
<td>Entrepreneur fails to achieve the desired goal and terminates the entrepreneurship; A deviation of the actual performance of the enterprise from the expected goal or result.</td>
</tr>
<tr>
<td></td>
<td>Cannon &amp; Edmondson(2005)</td>
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<td></td>
<td>Politis &amp; Gabrielsson(2009)</td>
<td></td>
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<tr>
<td>result</td>
<td>Ucbasaran(2009)</td>
<td>Enterprise's incomes drop sharply or the expenses rise sharply, which causes the enterprise fails or cannot attract the new debt or equity funding that is required to continue to operate.</td>
</tr>
<tr>
<td></td>
<td>Shepherd(2009)</td>
<td></td>
</tr>
<tr>
<td>failure reason</td>
<td>Bruno, Mcquarrie &amp; Torgrimson(1992)</td>
<td>Enterprise for various reasons, including legal issues, conflicts among partners, death and so on, cannot continue to operate.</td>
</tr>
</tbody>
</table>

Based on the above, this paper defines entrepreneurial failure as a phased situation or fact that the enterprise doesn’t achieve the expected goal in the process of starting or managing. Because it is more suitable for characterizing entrepreneurial theory and practice.

Costs of Entrepreneurial Failure

It is thought that entrepreneurial failure has an impact on entrepreneurs’ development, affecting their financial situations, psychological states, social relations and so on. These bad influences caused by entrepreneurial failure are the costs of entrepreneurial failure. At present, there are two main views on the classification of the costs of entrepreneurial failure. First, the costs of entrepreneurial failure mainly include two dimensions, financial and emotional costs. Shepherd argued that the total costs of entrepreneurial failure consisted of financial costs and emotional costs[5]. The financial costs referred to the entrepreneurial failure brought economic losses to the entrepreneurs. The emotional costs referred to the emotional blow caused by the failure for the entrepreneur. There was a certain relationship between financial costs and emotional costs. The financial costs could reflect the emotional costs. The relationship between financial costs and emotional costs not only determined the
total costs of failure, but also affected the learning from failure, entrepreneurial intention and subsequent risk decision making. Second, the costs of entrepreneurial failure include emotional, social, professional, financial, entrepreneurial and physiological aspects[3]. There were certain crosses and substitutions among different dimensions, but not all costs were obviously supported. Therefore, this paper selects the financial costs, emotional costs and social costs that have significant influences as the division of the costs of entrepreneurial failure.

Entrepreneurial Self-Efficacy

Self-efficacy refers to the self-assessment of an individual's ability to overcome disadvantages and obstacles and succeed in the future. It affects individual behavioral choices, the extent of persistence and efforts in the face of difficulties. With the development of the theory of self-efficacy, a group of scholars represented by Bandura believed that self-efficacy had a special field. And it was aimed at a specific task. Introducing self-efficacy into the field of entrepreneurship, they created a new concept, entrepreneurial self-efficacy. Now, scholars have basically reached a consensus on the definition of entrepreneurial self-efficacy. They all thought that it was necessary to refer to the definition of self-efficacy and combine the characteristics of entrepreneurial activities to define the concept of entrepreneurial self-efficacy. Scherer argued that entrepreneurial self-efficacy was entrepreneurs’ level of confidence in completing tasks. Boyd and Vozikis defined entrepreneurial self-efficacy as the level of self-confidence in successfully playing various entrepreneurial roles. The definitions of entrepreneurial self-efficacy have different inductions, but the core view expressed is still consistent. They all emphasized entrepreneurial self-efficacy was that people believed they could successfully finish all activities in the course of entrepreneurship. Therefore, this paper believes that entrepreneurial self-efficacy refers to the individual's confidence in taking on the responsibility of the entrepreneur and successfully completing the tasks of entrepreneurial activities.

The Costs of Entrepreneurial Failure and Risk Decision Making

Entrepreneurs experience from “have” to “lose” painful process the body and mental have suffered a double blow, which will influence the study, life and subsequent entrepreneurship. Entrepreneurs experienced failure, who would feel disgraceful[6]. Some investors might even view failure as a stain on entrepreneurs' performance. Because enterprise will fail or cannot attract the new debt or equity funding after failure. They would choose escape or retreat. Entrepreneurs might see low-cost failures as unfortunate encounters or anomalies, and thus would not lose confidence. But, the total costs were very high, the confidence and optimism of entrepreneurs would lower[7]. Moreover, the previous loss increased the pain of future losses so that the degree of risk aversion might increase gradually[8]. It can be seen that after the entrepreneurs fail, they will be more cautious when facing the risk decision of re-starting. Entrepreneurial failure which may also result in negative moods, such as grief, frustration and so on. These emotions would let people pay more attention to the loss and think in a negative way[9]. That way, the perceived risk frequency of risk events will increase. Entrepreneurs will make pessimistic estimates and then tend to choose a low-risk option. Social costs, as another outcome of failure, also influence the subsequent risk decision making. Entrepreneurial failure brought bad effects to the social status and social networks[3]. So, decision makers will be more risk-averse because they are afraid it can be happened again.

The Moderating Role of Entrepreneurial Self-Efficacy

Chen et al. applied self-efficacy to the field of entrepreneurship and proposed the concept of entrepreneurial self-efficacy.Entrepreneurial self-efficacy refers to the individual's confidence in taking on the responsibility of the entrepreneur and successfully completing the tasks of entrepreneurial activities[10]. Entrepreneurial self-efficacy affects people's understanding of the situation and the judgment of the expected situation. People with high entrepreneurial self-efficacy would regard the current challenging situation as an opportunity to achieve success. Even if they faced entrepreneurial failure, they would tend to associate with future profits, social identity and
self-realization. They would imagine more success scenarios in the future[11]. Therefore, even though in financial dilemma, they will think positively, learn from failure, make scientific decisions, and will not abandon risk gains.

In addition, based on social cognitive theory, we know entrepreneurs with high self-efficacy often tend to choose tasks that are challenging and suitable for their ability level. They think that they have the ability to control risks, and can bear risks. Thus, they may perceive less risks. The impact of previous failure costs on decisions in subsequent entrepreneurship may be weakened. While, those with lower entrepreneurial self-efficacy think they can control less risks, and take limited risks, therefore, perceive more risks. They will be more inclined to risk avoidance. Besides, entrepreneurs with high self-efficacy can also manage negative emotions effectively. They are less likely to be knocked down by negative emotions. They may effectively cope with failure pressure and objectively perceive risks, and then make rational decisions. Studies also showed that changes in risk decision preferences were influenced by risk adaptation and ability to manage negative emotions[12]. Entrepreneurial self-efficacy also plays a moderating role between social costs and the risk decision making. Although the social status dropped, the stigmatization owing to failure will change over time. For those with high self-efficacy, stigmatization provoked them to transform thinking patterns[13]. They hold a positive attitude toward failure and evaluate risks objectively.

**Conclusion and Prospect**

Based on the previous research results, this research constructs a theoretical model of the relationship among the costs of entrepreneurial failure, entrepreneurial self-efficacy and the risk decision making in subsequent entrepreneurship. From the perspective of the severity of the entrepreneurial failure, it takes the entrepreneurial self-efficacy as path and reveals the mechanism of the influence of the costs of entrepreneurial failure on the risk decision making. First, the costs of entrepreneurial failure can directly influence the subsequent risk decision making. The higher the failure costs, the more attention to risk entrepreneurs will pay, and the low-risk option will be preferred. Second, the risk decision making is influenced by entrepreneurial self-efficacy and it plays a moderating role between failure costs and risk decisions. Entrepreneurial self-efficacy will weaken the risk aversion caused by previous failure losses.

In addition, there are also some limitations in this research. On the one hand, this article doesn’t distinguish types of entrepreneurial failure, only for a specific group who once experienced the entrepreneurial failure. Different types of failure, such as bankruptcy and the critical setback, may have different effects on the thinking and decision processes of risk activities. On the other hand, this study doesn’t have a comparative analysis of risk management behaviors for novice entrepreneurship and subsequent entrepreneurship. For example, what are the differences between novice entrepreneurship and subsequent entrepreneurship? How are their thinking styles and behaviors different? In the future, further researches can be conducted to explore the differences in risk behaviors between novice entrepreneurship and serial entrepreneurship.

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**References**


