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GRIEF OR RELIEF? EMOTIONAL RESPONSES TO FIRM FAILURE

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ABSTRACT

This paper provides a first systematic assessment of how entrepreneurs react to firm failure. As hypothesized, we find that these reactions are complex and multifaceted, involving grief as well as relief. We use appraisal theory as an overarching theoretical framework. To test the hypotheses we develop a unique, hand collected, database of entrepreneurs who recently filed for firm bankruptcy. 310 telephone interviews were conducted (response rate 65%) directly followed by a mail questionnaire. After a three-wave mailing (i.e. two reminders) 147 valid mail questionnaires were returned (response rate 31.2%). This paper constitutes an important step in advancing empirically valid theory of emotional responses to entrepreneurial failure.

INTRODUCTION

Uncertainty is a defining characteristic of entrepreneurship (c.f. Knight, 1921). As such, the outcomes of entrepreneurial endeavors are unknown and unknowable a priori, leading to variance in the distribution of outcomes of entrepreneurial efforts (McGrath, 1999) – some will be successful and others will fail. Looking across a whole series of entrepreneurial attempts within a society, greater variability of outcomes with more failures and more large successes is positive for overall development (McGrath 1999). Thus, from a societal viewpoint, failure might not only be a necessary consequence of uncertain entrepreneurial endeavors but also desirable. The potentially positive consequences of failure for individual entrepreneurs, however, are less apparent. Scholars have started to explore consequences of entrepreneurial failure, highlighting the negative implications that it might have for entrepreneurs. Entrepreneurial failure is likely associated with financial as well as emotional loss, leading to grief (Shepherd, Wiklund, & Haynie, 2009) and to the extent that failure is a learning experience, learning is neither immediate nor automatic (Shepherd, 2003). Given that outcomes of entrepreneurship are uncertain and unknowable, and entrepreneurs can be aware of the impending failure of their firms (Shepherd et al. 2009) and vary in their motivations for running a business (Carter, Gartner, Shaver, & Gatewood, 2003), it is unlikely, however, that entrepreneurs have similar outcome expectations and react similarly to firm failure. In this paper we explore further the variance in reactions to entrepreneurial failure, proposing that entrepreneurs feel negative and positive emotions during the failure process.

To examine how people vary in their reactions to a similar experience (firm failure) we build on appraisal theory. Central to this theory is the idea that people's emotional reactions depend on their subjective evaluation – appraisal of the event (Griner & Smith, 2000). This theory can help explain why entrepreneurs vary in the extent to which they react positively or negatively to the failure of their businesses. To our knowledge, this is a first application of the theory for studying entrepreneurial failure, but it has been successfully used in a similar context, e.g., to understand the implications of job loss (Gowan & Gatewood, 1997; Latack, Kinicki, & Prussia, 1995).

To examine these questions, we develop a unique, hand collected, database of over 300 entrepreneurs who recently filed for firm bankruptcy. To foreshadow the results, we find support for the idea that entrepreneurs vary in the extent to which they experience negative (grief) as well as positive (relief) emotions upon bankruptcy. In doing so, we make a number of contributions to the literature. Principally, we contribute to three lines of research. First, a small but growing community of scholars are showing interest in further understanding the implications of entrepreneurial failure. To date, however, systematic empirical study of the topic has been virtually non-existent. Thus, this study represents an important first step in formally examining and testing propositions related to how entrepreneurs react to the failure of their businesses. In doing so we develop and test a set of hypotheses that explain when entrepreneurs are more or less likely to experience grief or relief when exiting a failing firm.

Second, the study highlights the importance of distinguishing between failure as a process and the exit of the firm, an event. Depending at what point in the failure process the entrepreneur exits, different emotions are evoked. This provides an important extension of theories aimed at understanding the consequences of entrepreneurial failure and negative events more generally. Third, there is a substantial literature on the emotional implications of a job loss, some of it relying on appraisal theory (Gowan & Gatewood, 1997; Gowan, Riordan, & Gatewood, 1999). This literature deals with situations where employers and employees are separate people, the former laying off the latter. In our case, we examine individuals that are self-employed. We thus extend this theory into a new context and test the boundary conditions of it.

The paper proceeds as follows. Drawing on appraisal theory we develop a set of hypotheses to explain when entrepreneurs are more or less likely to feel grief or relief after firm failure. A detailed account of the study is provided in the method section. The results and analysis are then presented. We conclude the paper with our main findings.

THEORY AND HYPOTHESIS DEVELOPMENT

In order to understand initial reactions to firm failure we draw on appraisal theory. Central to appraisal theory is the idea that people's emotional reactions depend on their individual and subjective evaluation - appraisal - of an event, situation, or object (Lazarus, 1991; Smith & Lazarus, 1993). Appraisal theory is used to understand how individuals respond to stressful life events, for example job loss (Jacobson, 1987) illness, (Landreville & Vezina, 1994) and difficulties at work (Dewe, 1999), These events act as a stimulus for stress but are not sufficient for an individual to feel stress (Lazarus, 1999). It is the appraisal of the event – how significant the event is for personal well-being – that makes an event stressful (Lazarus, 1999). When appraising a situation, an individual evaluates the relationship he or she has with the environment for his or her personal well-being. (Lazarus, 1991; Smith and Lazarus, 1993) and this is usually done with a referent goal or standard in mind. (Smith & Lazarus, 1993). Put simply, an appraisal is about asking "how bad is it?" (Latack et al., 1995).

As our aim is to understand initial reactions to firm failure and the intensity of emotions in general, the focus is on primary appraisal. Primary appraisals are evaluations of personal meaning, relevance or significance of a given experience and are an instant alert to the individual (Lazarus, 1991), linked to negative or positive emotional experiences (Oatley, 1992). Appraisals within this framework have been shown to exhibit a clear, strong and reliable link between an evaluation of a situation and the subjective emotional response (Griner & Smith, 2000). Further, in the context of work stress, primary appraisals have been shown to have a significant effect in explaining variance in emotional responses (Dewe, 1999).

Primary appraisals can be broken down into two components: personal relevance, which is an evaluation to the extent to which an event, such as firm failure, touches upon personal commitments and therefore the degree to which the event is personally relevant; and motivational congruence (or incongruence), which captures the extent an event is consistent (or inconsistent) with an individual's desires or goals (Smith and Lazarus, 1993). Positive emotions occur when the individual believes that the situation is personally relevant and congruent with his/her goals, while negative emotions arise when the situation is believed personally relevant and incongruent with the individual's goals (Roseman, Antoniou, & Jose, 1996).

In the context of operating one's own business, the failure to continue operating the business and closing it is likely to be appraised as personally relevant and incongruent with goals. Entrepreneurs often have strong psychological ties to the ventures they create and business failure can have psychological implications (DeTienne, 2008). To start and run one's own business is one of the most powerful investments an individual can make (Pierce, Kostova, & Dirks, 2001). Thus, firm failure can be harmful to an entrepreneur's self-definition (Ucbasaran, Westhead, & Wright, 2009), a violation of his or her identity (Belk, 1988; Pierce et al., 2001) and lead to damaged self-efficacy (Bandura, 1997). The death of an organisation results in the loss of a major social arena where the entrepreneur has spent most of his or her time; it is an emotionally charged experience causing "mourning, anger, depression, sorrow and fear of the unknown, the future and the ambiguous present" (Harris & Sutton, 1986 p. 11).

We therefore propose that entrepreneurs are likely to experience firm failure as personally relevant and motivationally incongruent, and hence a stressful experience. This, in turn, is likely to result in negative emotions. Because of the especially damaging effect the failure will have on the entrepreneur's self respect and identity, and because of the strong emotional bonds entrepreneurs often have with their businesses, intense negative emotions, such as grief are likely to occur (Shepherd, 2003). Grief includes emotions of denial, anger and frustration, sadness, anxiety, guilt and depression and is often felt in response to a loss of something important (Archer, 1999; Averill, 1968) such as divorce and job loss (Blau, 2007). However, as suggested by appraisal theory, individuals will react differently to similar events. Therefore, we posit that the amount of grief that entrepreneurs feel will vary depending on the personal relevance of the failure event to the entrepreneur and the extent to which the failure is incongruent with the entrepreneur's goals.

In understanding the specific factors that influence an individual's primary appraisal (i.e. the personal relevance and goal incongruency of the failure) we turn to the literature on reasons for entering self-employment. In the event of failure, it is likely that these reasons will play a significant role in influencing the entrepreneur's primary appraisal. Based on a review of the literature on reasons for entering self-employment, Carter et al. (2003) found that in repeat studies a number of specific reasons have been found to influence an individual's motivation to enter self-employment. These were: independence, which relates to the individuals desire for flexibility, freedom and the possibility to control one's own time; recognition, which relates to a desire to be respected and achieve recognition; innovation, which captures the individuals desire to learn and develop an idea for a product or service; roles, which captures the individuals desire to continue a family tradition or follow in the footsteps of someone they admire; and financial success, which captures the desire to provide for the family or a desire to increase personal wealth (Carter, et al. 2003). Combined, these reasons signal the commitment the entrepreneur has to the firm and thus they determine what is at stake when the firm fails (c.f. Lazarus & Folkman, 1984). In the literature on involuntary job loss and work stress, loss of recognition (Dewe, 1999) and financial strain (Gowan & Gatewood, 1997) have been found to be important components of primary appraisal. Given that one of the characteristics that distinguishes self-employment from paid employment is the flexibility and control over one's own time, this loss of independence is likely to be an important factor that can make firm failure stressful. In this study we therefore focus on financial strain and loss of recognition as factors that can make the firm failure personally relevant for the entrepreneur and loss of independence which can result in the failure being motivationally incongruent. This leads to the following hypotheses:

H1: The more that the failure event is appraised as personally relevant in terms of (a) financial strain and (b) loss of recognition, the greater the feelings of grief
H2: The more that the failure event is appraised as incongruent with goals, in terms of loss of independence the greater the feelings of grief

While grief is an acknowledged emotional response to firm failure, such feelings of grief and other negative emotions are likely to be felt when the entrepreneur realizes that the firm will fail. This is because emotions associated with grief, such as sadness and anger, are felt when an outcome is known to occur with certainty (Ortony, Clore, & Collins, 1988; Roseman et al., 1996). In other words, sadness is likely to be felt when it is realized with certainty that the firm will fail irrespective of when the failure actually takes place.

Given that the failure of a business is a process which can extend over a substantial length of time (Shepherd et al., 2009b), the realization that the firm will fail and the actual failure event (firm exit) do not necessarily occur at the same point in time. The time between realizing that the firm will fail and the failure event can be particularly stressful (Shepherd, 2003). During this time entrepreneurs can prepare emotionally for the impending loss of the firm and enhance their overall recovery (Shepherd, et al., 2009b). Because of the time-lag, between the realization that the firm will fail and the actual failure event, the failure event might actually signify that the inevitable process of closing and leaving the business has come to an end. Thus, because entrepreneurs have the time to prepare for the eventual loss of the business, when the failure event occurs, it, may actually be in congruence with their goals – the failure event signals the end of the stress of running the firm and the entrepreneur has had sufficient time to prepare for the exit of the firm.

When a stressful (Pekrun et al., 2004) or painful (Roseman et al., 1996) event is over or when it is felt that the worst is over, relief is often felt. Specifically, relief is felt during an unfolding encounter where initially the encounter was appraised as goal incongruent. During the encounter there is a change in the person-environment relationship such that the encounter is changed for the better resulting in a reduction or elimination of emotional distress (Lazarus, 1991). Relief is therefore a positive emotion that always follows distressing emotions (Lazarus, 1991). Relief only occurs if goal incongruence has been eliminated or relieved and, as such, all goal incongruent emotions subside (Lazarus, 1991). For example Pekrun et al., (2004) found that relief was the emotion most frequently reported after taking an exam, a stressful experience. Relief is associated with tension leaving the body, being able to breathe more easily and wanting to get on with something else (Roseman & Evdokas, 2004).

Given that relief is felt when it is thought that the worst is over, getting rid of something painful and after negative emotions (Lazarus, 1991; Roseman et al., 1996) those entrepreneurs who appraise the failure event as personally relevant and motivationally incongruent are less likely to feel relief. For these entrepreneurs there has not been a change in the person-environment relationship that eliminates the distressing emotions associated with the failure. Specifically, for entrepreneurs who have had their financial security jeopardized as a result of failure, are less likely to feel relief as they are likely to have the same financial commitments (or even increased financial commitments if they personally guaranteed a portion of the firm's financing) as they did before the bankruptcy but reduced capacity to meet them. For these entrepreneurs it is unlikely the worst is over as they face financial strain and uncertainty in terms of how to provide for themselves or their family. Similarly, for entrepreneurs who feel that they have lost recognition as a result of the firm failure, the often public nature of firm failure can reduce the likelihood that they feel relief as they now must face friends, family and colleagues and explain to them that they no longer run the firm. Thus, there has not been a change in the person environment that results in a reduction or elimination of distressing emotions. Likewise, for those entrepreneurs who valued the independence that come with running the firm are unlikely to feel relieved as they have lost their source of independence. A change in the person environment relationship that is likely to result in the reduction or elimination of distressing emotions is the establishment of a new firm. This leads to the following hypotheses:

H3: The more that the failure event is appraised as personally relevant in terms of (a) financial strain and (b) loss of recognition, the lower the feelings of relief
H4: The more that the failure event is appraised as motivationally incongruent, in terms of loss of independence, the lower the feelings of relief

On the other hand, those entrepreneurs who realize that the firm will fail prior to filing for bankruptcy may feel relief at the point of exit. It is likely that they experienced negative and distressing emotions when they realized the firm was going to fail and not necessarily at the point of exit. During the time between realizing the firm would fail and exit preparations for the impeding failure are likely to be made (Shepherd et al. (2009) For example, family, friends and employees may be told about the impeding failure, meetings with lawyers are held and in general preparations for life after the firm are made (Shepherd, 2003). The time between realizing that the firm would fail and the point of exit - the failure event - is therefore likely to be stressful. Thus the failure event, the point of exit, is a change in the person-environment relationship that signals the end of the stress and thus at the point of exit negative emotions subside and relief is likely to be felt.

It is unlikely, however, that the relationship between realizing the firm will fail and feelings of relief are linear in nature. Extensive delay of the firm exit beyond a certain point might increase the entrepreneur’s overall stress and in addition is likely to contribute to a worsening financial situation. Given that entrepreneurs realize that the business will fail, they likely have some discretion in managing the failure process and make it shorter or longer. For example, entrepreneurs can put additional funding into the business to extend the process or file for bankruptcy themselves at an early stage to make it shorter. The failure of a business likely involves both financial and emotional loss and these two need to be balanced (Shepherd et al., 2009) – wait too long and financial losses amass, exit too quickly and emotional losses become substantial because of the lack of time to prepare for the loss. Therefore, these authors suggest that there is an optimal point of delaying failure that will minimize the overall losses of entrepreneurial failure. Building on these insights, we suggest that there is similarly an optimal time of delaying entrepreneurial failure that will maximize the amount of relief felt at the failure event. This leads to the following hypothesis:

H5: There is an inverse U-shape relationship between the time from realizing the business will fail and the failure event and the feeling of relief. Relief first increases with increased delay. Beyond an optimal point, relief then decreases with additional delay.

METHOD

Research Design and Sample

We side with Shepherd and Wiklund (2006) in defining entrepreneurial failure as occurring when a fall in revenues and/or rise in expenses are of such magnitude that the firm becomes insolvent and is unable to attract new debt or equity funding; consequently, it cannot continue to operate under the current ownership and management (Shepherd, 2003; Shepherd, Douglas and Shanley, 2000). This definition emphasizes that for economic reasons the business is unable to continue its operations. That people exit entrepreneurship is not a sufficient criterion for failure because many entrepreneurs exit their businesses for reasons other than failure, e.g., because they sell the business and harvest the value (e.g., Wennberg et al, 2009). Therefore, to define a sample of failed entrepreneurs in order to study emotional reactions we turned to entrepreneurs that had recently filed for firm bankruptcy, where bankruptcy proceedings in most cases were ongoing at the time of contact. Arguably, bankruptcy is a primary representation of business exit due to insolvency.

Using filing for firm bankruptcy as the operationalization of firm failure is particularly relevant in Sweden, where the data collection took place, as it is likely to capture the economic and emotional consequences associated with firm failure that have been identified by Shepherd, (2003). In Sweden, a firm is bankrupt when it can no longer pay its liabilities and that this situation is not temporary. The bankruptcy and insolvency laws are much stricter than the equivalent laws in the USA. There is no homestead exemption in Sweden and debt reconstruction requires the individual to live on the absolute minimum existence wage for five years and all income over this is used to pay creditors. This reconstruction process includes all outstanding tax debt from the company that the owner becomes responsible for at the time of bankruptcy. There is also a substantial stigma associated with failure in Sweden. In a *Eurobarometer* survey where respondents were asked to state whether they would not order goods from a merchant who had previously failed, Sweden was the country with the highest percentage that stated that they would not order goods – over 65 percent (Armour & Cumming, 2005). Also, studies have shown that in Sweden entrepreneurs who return to paid employment are likely to earn less than their equally qualified employed counterparts (Falkenhall & Wennberg, 2010).

Publically available data in Sweden contains information about all firms that go bankrupt and the identities of all board members of these bankrupt firms. We first constructed a sampling frame consisting of all firms which had filed for bankruptcy in Sweden during September, October and November of 2008. A total of 1451 firms qualified. 451 of these firms went through liquidation prior to the bankruptcy. Contacts with liquidators and receivers indicated that those individuals might be systematically different from those that go straight into bankruptcy. For example, this 'two-step' route to bankruptcy likely extends the failing process, which might affect the emotions felt at the time of the interview. Therefore, these 451 firms were excluded from the sampling frame that then consisted of 1000 bankrupt firms.

A key informant approach was adopted (Kumar, Stern, & Anderson, 1993) and we therefore sought to locate the entrepreneurs of these firms. As failed entrepreneurs we define those individuals that were active in running the firm in the time leading up to the bankruptcy and also had an ownership stake in the firm at that point. As owner-managers can not be identified from non-active board members a priori, all board members were first included as potential respondents. Their social security number was used to obtain their current address and this information was then used with the assistance of an online directory to obtain residential and mobile phone numbers. We were able to locate contact numbers of 1,077 board members representing 885 companies. Out of these, 64 individuals were connected to more than one firm. In the cases were there were more than one respondent per firm, we randomly selected the order in which we contacted them and the first relevant respondent was used. In the cases where one respondent owned more than one firm that had gone bankrupt, the respondent was instructed to provide answers for the firm where they had been most active.

All potential respondents were telephoned in March, April or early May, 2009, approximately 6 months after filing for bankruptcy. In most cases bankruptcy proceedings were ongoing at the time of contact. The screening questions (1) "Were you actively running the company at the time of bankruptcy" and (2) "Did you have an ownership stake in the company at the time of bankruptcy" were used to identify the suitability of the respondents. If they responded positively to both these questions they were asked whether they would be willing to participate in a telephone interview and on conclusion of the telephone interview whether they would accept a mail questionnaire.

The telephone interview consisted of approximately 50 questions and took on average 8 minutes. The telephone interview and mail questionnaire were pre-tested in November 2008 on a random sample of 50 owner-managers who had filed for bankruptcy four months prior to being contacted. Minor adjustments were made based on the results from the pilot study.

In total, 333 telephone interviews were conducted representative of 310 companies, We received double respondents from 23 companies. These responses were used to validate questions from the telephone interview. 294 respondents accepted to receive the mail questionnaire and after a three-wave mailing (i.e. two reminders) 161 valid mail questionnaires were returned, 147 of which were from unique firms. This gave a 35 percent response rate to the telephone interview and a 50 percent response rate to the mail questionnaire. If just the cases where the respondent could be reached, the response rate to the telephone interview was 65.8 percent and the mail questionnaire 50 percent. Given the sample population these response rates are exceptionally high.

The average age of the respondents was 48 years old, 85 percent were male and 62 percent had been involved in more than one start-up. The average age of the business at the time of bankruptcy was 8.5 years and the average number of full time equivalent employees was 6.

Measurement: Grief and Relief

Grief was measured using items adapted from (Blau, 2007) who investigated the grief process associated with work site closure. This measure was chosen as it had been tested in an empirical setting similar to ours and it was a parsimonious measure. Slight adaptations were made to the items to make them relevant for firm bankruptcy rather than unemployment. This was done to increase the face validity of the items. The specific emotions included were denial, anger, bargaining, depression, acceptance and personal growth. Respondents indicated on a 7 point Likert scale (1= *does not apply at all to me;* 7 = *completely applies to me*) the extent to which each emotion statement applied to how they are currently feeling about the bankruptcy.

A principal components analysis revealed four components with eigenvalues over 1, accounting for 64 percent of the variance. The results are shown in Table 1. The first factor was much larger than the others and consisted of negative emotions associated with grief: denial, anger and depression, labeled grief. Combined, this factor gives an indication of the intensity of felt grief (Archer, 1999; Archer & Rhodes, 1993). It is not unexpected that these items would load together on one factor as the grief emotions are usually found to be highly correlated (Archer, 1999). Even in studies were anger and depression are found on distinct factors, the factors are highly correlated. As the present analysis focuses on initial emotional responses to firm failure, only the grief factor is used in the current analysis. When combined into an index, the Cronbach's Alpha value of the grief index was 0.88. Bargain, personal growth, and acceptance made up the other factors. Bargain can be viewed as a specific response style to firm failure.

Relief was measured using three items adapted from (Pekrun et al., 2004). The relief questions appeared in the survey with the other emotion questions and respondents indicated on a 7 point Likert scale (1= *does not apply at all to me;* 7 = *completely applies to me*) the extent to which each emotion statement applied to how they are currently feeling about the bankruptcy. When included in a principal components analysis with the grief emotions, they formed a single factor. When combined into an index, the Cronbach's Alpha value of the relief index was 0.85. The results from the principle components analysis where all emotions were included are presented in Table 1, only the results relevant to the current analysis are shown.

Measurement: Primary Appraisal

When measuring primary appraisal there is a general choice between choosing macro-level global items which can be applied to a variety of situations or micro level items that provide richer descriptions and are context specific (Folkman et al; Dewe, 1991). As it has been shown that in work settings context specific questions provide greater predictive value (Dewe, 1999) and that individuals in general display more variability than consistency with their reactions to stressful situations (Latack et al, 1995), context specific questions were used to assess primary appraisals in the current study. Where possible, the items developed by Folkman, Lazarus, Dunkel-Schetter, Delongis, & Gruen, (1986) to assess how individuals appraise stressful situations in general, were adapted to the specific context of firm failure. The items developed by Birley & Westhead (1994), reasons for business start-up, were also adapted to capture the specific implications of firm failure. In doing we operationalized the three identified components of primary appraisal that are likely to make firm failure particularly stressful for entrepreneurs. Respondents indicated on a 7 point Likert scale (1= *does not apply at all to me;* 7 = *completely applies to me*) the extent to which each item was relevant to them. A principle components analysis revealed the three factors accounting for 65.90 percent of the variance. The three factors were labeled: loss of recognition, financial strain and loss of independence. The results are shown in table 1.

Measurement: Realize the Firm Would Go Bankrupt

During the telephone interview, respondents were asked if they realized that the firm would go bankrupt prior to the filing for bankruptcy. 198 said they did (55.9 percent) and 156 said they did not (44.1 percent). These respondents that answered yes were then asked how many months prior to the filing that they realized that the firm would go bankrupt. As the distribution of this variable was positively skewed, a Windsor adjustment was performed to account for the outliers where the 95th percentile value was imputed for observations beyond the 95th percentile.

Measurement: Control Variables

A number of control variables were included in the analysis. As the sample was all firms that had filed for bankruptcy over a three month period and the survey took place approximately 5 months later, there was potential for substantial variance in the time between filing for bankruptcy, when the respondent was interviewed and when the mail questionnaire was received. For this reason the time between filing for bankruptcy and the time when the mail questionnaire was returned was controlled for. On average the mail questionnaire was returned 6.5 months after filing for bankruptcy with a standard deviation of one month. The amount of private debt the individual had at the time of interview was also controlled for. The average amount was 281 495 SEK and the standard deviation was SEK 625 264. As the distribution of this variable was positively skewed, a Windsor adjustment was performed to account for the outliers. Education was also controlled for as previous literature on job loss has shown that education is positively related to outcomes such as reemployment, lower levels of stress and overall wellbeing (Prussia, Kinicki,

& Bracker, 1993). Sex, age of the respondent, whether the company was the mail source of income, the number of employees at the time of the bankruptcy, the number of hours worked and whether the company was the owner-managers sole occupation were included as additional control variables.

Potential Biases and Their Alleviation

Previous research has noted that it is very difficult to conduct unbiased studies of the role of failure in entrepreneurship because the willingness of failed entrepreneurs to respond is much lower than the willingness of successful entrepreneurs (cf. Shepherd & Wiklund, 2006). Our response rate of 32% among failed entrepreneurs is higher than that typically reported for random samples of entrepreneurs in general. Thus, despite the fact that the study deals with failure, the general risk of non-response bias is no larger than in most other published entrepreneurship research. Potential bias likely derives from three main sources. First, entrepreneurs with very large outstanding debt might go underground to avoid paying them. Thus, we would be unable to reach them and our results would not generalize to this sub-sample. Second, individuals under the age of 30 were more difficult to reach, potentially because they are less likely to have permanent phone numbers. We control for age in our models to help alleviate this potential bias. Third, it is possible that some people who grieve substantially would decline to take part in the study because the bankruptcy brings up memories that they prefer not to think about. This would reduce the variance in the dependent variable.

This study deals with emotions and self-appraisal of individuals. Thus, the variables of main interest are self-perceptive in nature. This introduces the potential for common method bias. In order to alleviate this problem, we followed recommendations by Podsakoff et al, (2003) assuring that the independent and dependent variables were collected at two different points in time, using different means of data collection and different response formats.

ANALYSIS AND RESULTS

Results from a correlations analysis showed moderate to low correlations among variables, suggesting that multicollinearity should not be a main issue. The correlations among the appraisal variables range from .40 and .53.

We used hierarchical linear regression analysis to test our hypotheses. Regression results for grief are provided in Table 2. We first tested a base model including the study's control variables. These results are displayed in column two of the table. The amount of private debt had a positive influence on felt grief and females were more likely to feel grief. Because of their moderately high inter-correlations, in columns three to six, we enter each of the appraisal variables separately to examine their unique influence on grief. Each variable has a positive and statistically significant influence on grief. This provides preliminary support for hypotheses 1a, 1b and 2. In the rightmost column of the table, we then test the full model. This model explains 28% of the variance in felt grief. Financial strain has a positive and statistically significant influence on grief ($\beta = 0192$, $p < 0.10$). This finding supports Hypothesis 1a stating that the more that the failure event is appraised as personally relevant in terms of financial strain, the greater the feelings of grief. Loss of recognition has a positive and statistically significant influence on grief ($\beta = 0.425$, $p < 0.001$). This supports Hypothesis 1b stating that the more that the failure event is appraised as personally relevant in terms of loss of recognition, the greater the feelings of grief. We find no influence of the variable loss of independence ($\beta = -0.107$, $p > 0.10$). Thus, Hypothesis 2 is not supported.

In Table 3 we show the regression results for relief. We first tested a base model including the study's control variables. These results are displayed in column two of the table. None of the control variables has a statistically significant influence on relief. In the next column we include the effects of appraisal on relief. None of the appraisal variables has a statistically significant effect on relief. Thus, we did not receive support for Hypotheses 3a, 3b and 4 stating that the more that the failure event is appraised as personally relevant in terms of financial strain (H3a) and loss of recognition (H3b) and motivationally incongruent in term of loss of recognition (H4), the lower the feelings of relief.. In model three displayed in the rightmost column of Table 4 we add the influence of the variable 'realize'. Our Hypothesis 5 states that there is an inverse U-shape relationship between the time from realizing the business will fail and the failure event and the feeling of relief. Relief first increases with increased delay. Beyond an optimal point, relief then decreases with additional delay. In order to test that hypothesis we examine the direct effect of the variable 'realize' as well as the influence of 'realize' squared. We find a statistically significant positive influence of 'realize' ($\beta = 0.66$, $p < 0.05$) and a statistically significant negative influence of 'realize' squared ($\beta = -0.52$, $p < 0.05$). These results lend support to the hypothesized inverse U relationship between realizing the firm will fail and relief.

DISCUSSION

In this paper we set out to examine how people vary in their emotional reactions to firm failure within the framework of primary appraisal. Our study makes a set of important contributions. First, we advance the notion that an entrepreneur's emotional response to the failure event is dependent on their subjective appraisal of the failure event. Prior research has proposed that entrepreneurs are likely to feel grief when their firms fail. We took this as our starting point and investigated the role of primary appraisals in influencing felt grief. However, given that firm failure is not isolated to a single event but is a process that unfolds over time we also investigated the emotion relief. Relief is an emotion that is only felt after distressing emotions when there has been a change in the person-environment relationship that eliminates or substantially reduces the distressing emotions. Thus feelings of relief may also be involved in the failure process. However, we first discuss our findings related to grief.

Building on previous research applying appraisal theory to the study of job loss paired with the literature on reasons for becoming an entrepreneur, we identified three specific appraisals that would be particularly important to failed entrepreneurs. These were financial strain, loss of recognition and loss of independence. We found that the more the bankruptcy was associated with financial strain for the entrepreneur, the higher the amount of grief felt. Similarly, the more the entrepreneur felt that the bankruptcy was associated with loss of recognition from the surrounding society, the more grief the entrepreneur feels. Moreover, our results suggest that these variables related to the entrepreneur's appraisal of the failure event were more important to the amount of grief felt than more distal variables such as the firm being their main source of income or sole occupation.

Earlier work on entrepreneurial failure has highlighted that it is likely that entrepreneurs feel grief post failure (Shepherd, 2003). In this paper, we add to this literature by showing the factors that influence the amount of grief felt, thus explaining variance in grief across entrepreneurs. We found support for the notion that the amount of financial strain imposed by the entrepreneurial failure and the loss of respect indeed influenced the amount of grief felt. Prior research has suggested that entrepreneurial failure has negative emotional and financial implications (Shepherd et al., 2009). Thus, our study represents empirical corroboration of these arguments. We indeed find that these are two important aspects of failure that make the experience stressful. Our results also qualify those propositions by showing how the financial and emotional consequences are related. The more financial strain that the bankruptcy generates, the more the entrepreneur feels grief.

Our finding that entrepreneurial failure is associated with the loss of recognition is of great interest. In the limited literature that exists on entrepreneurial failure and on bankruptcy, there is some suggestion that many managers accept rather than deny responsibility for the bankruptcy (Sutton & Calahan, 1987), which can explain why some people feel more grief than others. Recent entrepreneurship research invoking identity and social identity theory (e.g. Haynie & Shepherd, 2009) has suggested that being an entrepreneur represents a strong identity. Our results are suggestive of that the loss of a business represents a loss of the respect that goes along with that identity. This finding has many implications for future research. For example, there is a growing interest in examining national variance in the stigma of failure and its implications for entrepreneurship. Our findings are suggestive of a potentially important mechanism that transmits that stigma into individual reactions and behavior. It seems that the higher the stigma of failure, the more entrepreneurs are likely to feel that their failure is associated with the loss of recognition and with increased grief.

Turning now to our results for relief, another important contribution of this paper is that we make a distinction between the failure event (i.e., when the firm is officially exits), and the failure process. It is likely that on many occasions, failure is a relatively slow process. For example, an entrepreneur might experience gradually diminishing sales and profits leading the entrepreneur to realize that the firm will eventually fail long before it goes bankrupt. On other occasions, failure is sudden. Dominant customers might suddenly close or relocate, or important regulations are altered. We suggest that depending on the timing of the failure event relative to the realization that the business will fail, the actual bankruptcy event will elicit greater or less amounts of relief.

Interestingly, in our analyses, we did not find that any of the appraisal variables that explained grief had an influence on the amount of felt relief. Thus, the positive emotion relief is not the flipside of the negative emotion grief, but different theoretical models are needed to understand the amount of relief felt. Primary appraisals alone seem insufficient to explain relief. Instead we found that the time passing between realization that the firm will fail and the actual failure event explains the amount of relief. The support for a curvilinear relationship tells us that the relationship between entrepreneurial failure and emotions is more complex than often assumed. The failure event is not only negative. It can be associated also with positive emotions – relief. But the amount of relief felt is dependent on the timing of the bankruptcy relative to the realization that the business will fail. The time between realizing that the business will fail and the actual bankruptcy should neither be too long nor too short. It is interesting to note the conceptual model proposed by Shepherd et al. (2009) in light of our findings. They suggested a similar curvilinear relationship between timing and emotional recovery. To this we add that the relief associated with the bankruptcy is likely to be responsible for the emotional recovery.

Our research serves to establish boundary conditions of theories used in the job loss literature. To date, this literature has been concerned with situations where a superior decides that subordinates will no longer be employed. We have studied self-employed individuals and their job losses due to their failure to continue operating their own businesses. Thus, our context is quite different from that usually employed in the job loss literature. Our findings of how appraisal influences grief is largely in line with prior studies of the implications of job loss. Thus, it appears that this branch of the job loss literature is relevant also for the study of the self-employed. It would be interesting to further examine other theories commonly applied in this literature to see the extent to which they can explain the implications of entrepreneurial failure.

In this paper we limited the study to two emotions, grief and relief - evaluative emotions (Liu & Perrewé, 2005) or past oriented emotions (Ortony et al., 1988). It is likely, however, that there are anticipatory emotions associated with failure such as worry and fear about what will happen after the firm exits (c.f. Liu & Perrewé, 2005). While more work is needed to understand the complexity of emotional responses to firm failure, appraisal theory could be extended to a more fine grained analysis of the emotions felt during the failure process. For example, regret is likely to be felt when the entrepreneur feels that they were responsible for some aspect of the failure (Roseman et al., 1996). In contrast, disappointment is likely to be felt if the entrepreneur feels that their goals have not been meet (Zeelenberg, Van Dijk, & Van der Pligt, 1998). One way to do this could be to also investigate the owner-manager's secondary appraisals, that is how the entrepreneur copes and deals with the situation. In our study we did not consider coping resources. An additional explanation for the variance in felt grief could be related to the individual's coping resources and choice of coping method.

We limited our focus to initial reactions to firm failure; however, as emotions are likely to change overtime in response to stressful events (Liu & Perrewé, 2005), an extension of this study would to look at how the reactions of the owner-managers evolve overtime and the role that coping plays in this process.

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Table 1: Emotions and Primary Appraisal: Varimax Principal Components Analysis

Items (Cronbach's alfa)	**Factor Loading (Variance Explained)**
Emotions	
1. *Grief* (.881)	(27.67)
I feel depressed about the bankruptcy	.792
Sometimes I want to cry because of the bankruptcy	.782
I cannot believe that the company went bankrupt	.753
I am furious that this could have happened to me	.734
I am angry that the company went bankrupt	.715
I am very sad because of the bankruptcy	.702
I can barely believe I no longer run the company	.631
I cannot believe that this has happened to me	.601
I feel a lot of hostility towards the people who were involve in the	.508
bankruptcy	(10.05)
2. *Relief* (.806)	.864
I can breathe out	.832
I feel relieved	.793
I feel that a large weight have been lifted from my shoulders	
	(29.00)
Primary Appraisal	.782
1. *Loss of recognition* (.852)	.781
I have lost an important persons approval or respect	.727
I have lost recognition or status	.725
I feel that I have lost my good reputation	(19.59)
I have lost my self respect	.868
2. *Financial Strain* (8.24)	.807
My finances are strained	(17.31)
My or my family's financial security has been jeopardized	.800
3. *Loss of independence* (6.99)	.673
I have lost the opportunity to develop my company	.638
I have lost the independence that comes with running a company	
I failed to reach an important goal	

Table 2: Regression Results – Grief

Variable	**M.1 control**	**M.2 H1a**	**M.3 H1b**	**M4. H2**	**M.5 H1a,1b &2**	**M. 6**
Age	.008	.040	.020	-.004	.042	.037
Sex	.174*	.148+	.193**	.152+	.186*	.174*
Time since filling	-.002	-.004	.022	-.042	.037	.040
Number of hours worked	.063	.029	.089	.016	.089	.088
Number of years as owner	-.003	-.013	.026	-.025	.043	.041
Number of employees	-.052	-.028	-.049	-.040	-.041	-.038
Start-up in other companies	-.007	-.028	.017	.019	-.007	-.005
Main source of income	.191	.181	.101	.202	.095	.089
Sole occupation	.059	.028	-.022	.018	-.018	-.004
Private debt	.224	.067	.141+	.202*	.065	.062
Tertiary Education	.055	.090	.011	.055	.034	.031
Financial Strain		.337***			.192+	.190+
Loss of Recognition			.448***		.425***	.437***
Loss of Independence				.204*	-.087	-.100
Realize						.054
Realize*realize						.026
F	2.215*	3.133***	4.88***	2.41*	4.527***	3.99***
R squared	.088	.167	.267	.116	.278	.272
ΔR-square		.078	.169	.033	.191	.006

+*P*<0.10; **P*<0.05;***P*<0.01;****P*<0.001

Table 3: Regression Results – Relief

Variable	**M.1 control**	**M.2 H3a,3b,4**	**M.3 5**
Age	-.156	-.179+	-.171
Sex	-.016	-.034	-.017
Time since filling	-.013	-.057	-.049
Number of hours worked	-.180	-.221+	-.197
Number of years as owner	.017	-.016	-.006
Number of employees	-.126	-.123	-.126
Start-up in other companies	-.130	-.109	-.080
Main source of income	.010	.145	.124
Sole occupation	.063	.060	.105
Private debt	-.074	-.023	-.021
Tertiary Education	.040	.044	.024
Financial Strain		-.095	-.155
Loss of Recognition		-.143	-.083
Loss of Independence		.185	-122
Realize			.660*
Realize*realize			-.520*
F	1.187	1.182	1.574*
R squared	.016	.020	.067
ΔR-square		.026	.057

+*P*<0.10; **P*<0.05;***P*<0.01;****P*<0.001