FEAR OF FAILURE: THE DARK SIDE OF ENTREPRENEURIAL ROLE MODELS (SUMMARY)

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FEAR OF FAILURE: THE DARK SIDE OF ENTREPRENEURIAL ROLE MODELS

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Principal Topic

Why are some people more likely to become an entrepreneur? A great deal of research dealing with this question focuses on the influence of entrepreneurial role models (peers) on the decision to start a firm (e.g., Sorenson and Audia, 2000). These studies argue that observing entrepreneurs in the local environment provides opportunities to learn about entrepreneurial tasks and signal that entrepreneurship is a favorable career option (see Fornahl, 2003). We add to this literature by asking the questions whether observing failing entrepreneurs triggers an entrepreneurship-deterring feedback on others. Based on a simple sender-receiver model we argue that observing successful entrepreneurs reduces other people fear to fail (H1) while observing failing entrepreneurs should increase other people fear of failure (H2). In a second step we extend the sender-receiver model with the concept of shared mental models (Denzau and North, 1994). In this respect, we argue that the social approval of entrepreneurship is a shared mental model and thus determines the perception and interpretation of role models. We hypothesize that the cushioning effect of knowing an entrepreneur on fear of failure is weaker in regions with low approval of entrepreneurship than in high approval regions (H3). Contrariwise, the amplifying effect of failing role models is stronger in low approval regions than in regions with high approval of entrepreneurship (H4).

Method

We test our hypotheses by combining individual-level data from the Global Entrepreneurship Monitor project in Germany (years 2003-2006, 2008) and regional-level data on firm failure. The recent German history provides a quasi-natural experiment as East Germany with its socialist history and legacy can be regarded as a region with low approval of entrepreneurship while West Germany is seen as a high approval area. Our dependent variable is the revealed fear of failure regarding entrepreneurship. This is measured with the GEM question of whether fear of failure would prevent the respondent from starting a firm (1 = yes, 0 = no). The extent of local firm failure is measured with the ratio is the ratio between the annual number of failure exits and the respective number of start-ups.

Results and Implications

The results show that knowing other entrepreneurs reduces fear of failure in others, while the local extent of firm failure increases fear of failure. The effect of knowing other entrepreneurs on fear of failure is weaker in East Germany. As firm failure has a strong negative impact on the entrepreneurial propensity of others it can then be regarded as a negative perceptual externality of business failure.

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