UNDERSTANDING FAILURE AND EXIT IN SOCIAL ENTREPRENEURSHIP: A PROTOCOL ANALYSIS OF COPING STRATEGIES

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Abstract

Entrepreneurial failure and exit are critical components of the venturing process of social entrepreneurs. Failing and abandoning the pursuit of opportunities that seek to create social good has consequences for a wide array of stakeholders, whose well-being depends on the value that the social entrepreneur provides. Given the nature of social entrepreneurship, this type of entrepreneur may present essential dissimilarities with their traditional counterpart in the way they cope with potential failure and exit. Using Verbal Protocol Analysis, the study reveals that decisions of social and traditional entrepreneurs vary equally depending on the nature of the business they are managing, not on the kind of entrepreneur they represent. While individual differences appear to matter more in the recognition of social opportunities, the nature of venture seems to be responsible for shaping individual responses to potential failure and exit.

Introduction

Entrepreneurial failure and exit are critical components of the entrepreneurial process. Altogether, they not only constitute an important event in the life of the founder, but also represent significant consequences for the firm, the industry and the economy. Social entrepreneurs, as a particular type of entrepreneur, also need to deal with failure and exit. However, given that social entrepreneurial action goes beyond the need to maximize profit for shareholders and owners, failure and exit may present essential dissimilarities with regards to what their traditional counterparts do while facing such particular stressful events. Failing and abandoning the pursuit of opportunities that seek to create social good has consequences for a wide array of stakeholders, whose well-being depends on the value that social entrepreneurial action provides. Despite the emergent interest in social entrepreneurship, we know little about the cognitive mechanisms and response strategies that social entrepreneurs use in the attempt to cope with potential failure and exit. Indeed, social entrepreneurship research could benefit from a stronger dialogue and understanding of entrepreneurial failure (Dacin et al. 2010).

Grounded in coping and social entrepreneurship literatures, this study seeks to understand the differences in information processing with regards to how social and commercial entrepreneurs respond and attempt to cope potential failure (i.e. particular stressful situation) in the process of entrepreneurial exit.
Using Verbal Protocol Analysis, our results show that participants mostly selected four coping strategies to cope with failure: problem solving, cognitive restructuring, information seeking, and negotiation. While no differences have been recorded at individual level, the selection of coping strategy varies across scenarios, meaning that it depends on the nature of the business they are managing, not on the kind of entrepreneur they represent. Although problem solving is dominant in both venture scenarios, both social and traditional entrepreneurs react emotionally when the social venture face a stressful situation. They also show persistence of effort and determination to save the company and avoid exiting. On the contrary, participants react rationally to approach failure in traditional venture scenario. They engage in instrumental actions and focus on logical analysis, planning, and strategizing. These findings suggest that the nature of the business is more influential than individual differences in modeling coping responses to the effects of stressful situations. While individual differences appear to matter more in the recognition of social opportunities, the nature of venture seems to be responsible for shaping individual responses to potential failure and exit. This is relevant because, notwithstanding the multiple aspects involved in the exit decision, the process and underlying cognitive mechanisms are extremely understudied (DeTienne 2010).

**Background Literature**

**Social Entrepreneurship Process, Failure and Exit**

Social ventures are double bottom line organizations that do good while doing well financially. Given the entrepreneurial nature of social ventures, it is tempting to incorporate findings from mainstream entrepreneurship literature to understand how these organizations emerge and develop (Dorado 2006). Efforts towards establishing its distinctiveness emphasize that social entrepreneurship involves indeed a venturing process concerning however not merely the pursuit of opportunities for profit but also the use and combination of resources to pursue opportunities to catalyze social change and/or address social needs (Mair et al. 2006). Like any venturing process, social entrepreneurs are therefore involved in activities concerning venture emergence, growth and, eventually, survival, all while facing uncertainty (McMullen and Shepherd 2006) and the ghosts of potential failure and exit.

Substantively, social ventures emerge from business ideas that respond to social anomalies, which are enacted through dialogue and the building of commitment between social entrepreneurs and the community they are serving. Such commitment escalates at the time the entrepreneur better resolves the social gap he or she is seeking to tackle, all in all closeness seems to lead to dependence. Social entrepreneurs can be seen as social problem solvers building pieces for the puzzle that disadvantaged communities are incapable of resolving.

Escalation of commitment and dependence may have particular consequences when the entrepreneur faces problems or stressful situations that might lead him or her to abandoning the venturing process. If that is the case, the community’s well-being that most of the times relies on the product or service the venture provides will return to its disadvantaged position. Even worst, given that assistance, in the form of entrepreneurial action, often times leads to excessive dependence (Easterly 2006), failing and exiting the firm may produce a detriment on the natural resilience of communities. Failing and exiting are in themselves stressful situations that entrepreneurs in general have to deal with, however, the dependencies created in the social sphere, as explained above, may induce social entrepreneurs to react differently when coping with such situations.
Despite its importance, failure and exit and the entrepreneur’s cognitive responses to them are components of the venturing process understudied within social entrepreneurship literature, and deserving more attention. In line with Dacin et al. (2011) we argue that cognitive approaches in general offer considerable promise for building a stronger theoretical basis for social entrepreneurship research.

Entrepreneurial Failure and Exit

Although caution needs to be exercised when translating issues from the traditional to the social arena, arguments supporting the relevance of entrepreneurial failure and exit as critical component of the entrepreneurial process (DeTienne 2010), lead us to acknowledge their centrality in the pursuit of opportunities aimed at creating both social and financial value.

Entrepreneurial exit can be defined as “the process by which the founders of privately held firms leave the firm they helped to create; thereby removing themselves, in varying degree, from the primary ownership and decision-making structure of the firm” (DeTienne 2010:203). This definition allows to clarify several assumptions regarding the concept of exit in entrepreneurship. Firstly, similarly to many entrepreneurial outcomes, exit is a complex and uncertain process that involves the intersection of enterprising individuals and the firms that they create (Davidsson and Wiklund 2001; Sarasvathy 2004). However, existing research on the decision to exit the firm and its consequences has tended to focus on the founder or on the organization, seldom examining the interaction between these two levels of analysis (see Wennberg and DeTienne 2014). Therefore, the founder and the firm have to be considered simultaneously in order to shed light on the dynamics of the entrepreneurial exit.

Secondly, if the exit process involves the founder and the firm, then theorizing and discussing the exit must depend on defining individual and firm factors which serve as triggers for such decision. At individual level, an exit decision can be influenced by the founder’s intention, his/her individual strategies, motivation, personality, access to network, and entrepreneurial characteristics (e.g. DeTienne and Cardon, 2012; Folta et al. 2010; Zhao et al. 2010). At the firm level, factors such as firm strategic decisions, resources and capabilities, firm performance, team dynamics, and management style can lead to the decision to exit (e.g. Carter et al. 2003; Hellrstedt et al. 2006; Gimeno et al. 1997). Interaction of all these factors may trigger the decision to exit the firm, generating individual as well as company level outcomes (Wennberg and DeTienne 2014).

Thirdly, entrepreneurs can decide to leave the firm at any stage of the entrepreneurial process. However, exiting the entrepreneurial process from a potential, nascent or an established state of the venture involves different context of disengagement with different individual and firm level outcomes. For example, nascent entrepreneurs may passively decide not to start a venture, whereas established entrepreneurs may make an active decision to leave the company. In addition, entrepreneurs may exit the firm while the firm remains open. This type of decision might be attributed to the founder’s planned exit strategy (Salvato et al. 2010), retirement, a desire to pursue different interests, or forced by outside influences (Wennberg et al. 2010). Further, the type of exit routes available and the willingness to exit may differ significantly between lifestyle entrepreneurs and growth entrepreneurs. These observations suggest that individuals have different motives to leave the entrepreneurial process that are related to their willingness to leave the firm, their emotional commitment to the company (Cardon et al., 2005), and their financial expectations (Gimeno et al. 1997).
Fourthly, exiting the entrepreneurial process is not the same as venture failure (Knott and Posen 2005). Although exit and failure might be synonymous for lifestyle entrepreneurs whose goal is not to maximize profits, but to stay in entrepreneurship (Eikhof and Haunschild 2006), the two terms refer to distinct happenings for growth-oriented entrepreneurs. This type of entrepreneurs considers exiting from the firm they created and grew as an explicit goal (Delmar and Shane 2004). However, those occasions where failing ventures trigger the entrepreneurial exit transform the exit decision into an emotional process, which involves coping with, recovering from and potentially learning from such event (e.g. Cope 2011; Jenkins et al. 2012; Shepherd et al. 2009).

Because emotional reactions are triggered by the level of emotional and financial commitment that entrepreneurs give to their ventures, those reactions have unique effects on the decision making process. As such, the emotional components have to be integrated in the examination of the cognitive mechanisms underlying entrepreneurs’ decision to exit the venture. If traditional and social entrepreneurs differ in their level of emotional and financial commitment, then we have reasons to think that they differ in the motivational processes that are linked to their decision to exit the firm. This distinction should be especially through when exit is seen as failure and relates to the financial performance of the venture because the financial consequences of failing are different. To date, these differences have not been addressed in the entrepreneurship literature, and thus they deserve further attention.

Coping Strategies

Coping enables individuals to deal with stressful situations that arise when “important goal have harmed, lost, or threatened” (Folkman and Moskowitz, 2004; p. 747). Coping refers to “constantly changing cognitive and behavioral efforts to manage specific external and/or internal demands that are appraised as taxing or exceeding the resources of the person” (Lazarus and Folkman 1984: p. 141). Coping theorists assume that when individuals experience negative emotions they may engage with behavioral as well as cognitive coping responses to adapt to stressful situations (Abraido-Lanza, Vasquez and Echeverria 2004; Li and Yand 2009).

Because exit is an emotional process that may result in the experience of negative emotions (Shepherd 2003; Pierce et al. 2001), it involves the use of coping responses. Coping tools enhance individuals’ ability to self-assess their stress resistance and emotional stability. They are specific mechanisms through which coping has short-term effects on the resolution of the stressor as well as long-term effects on psychological wellbeing (Skinner et al. 2003). Although coping theorists agree on the pivotal importance of coping to reduce the impact of adverse life events, they disagree on the conceptualization and measurement of the ways of coping.

Research on coping tends to focus on two different coping approaches: problem-focused and emotion-focused coping (e.g. Patzelt and Shepherd 2011). While problem-focused responses refer to engaging in a plan of action or focusing on the next step, emotion-focused responses refer to engaging in distractive activities or seeking emotional support (Lazarus 1980; Stroebe and Schut 1999). However, in a recent review, Skinner and colleagues (2003) argue that such categorization took place on the basis of the categories that are included in the measures used most frequently. Consequently, they propose a more comprehensive categorization of behaviors and cognitions in which people engage when actually contending with life-problems.
They identify four core coping strategies (problem solving, support seeking, avoidance, distraction, cognitive restructuring) and eight semi-core coping strategies (rumination, helplessness, social withdrawal, emotional regulation, information seeking, negotiation, opposition and delegation). These coping strategies emerge at the intersection of type of concern (relatedness, competence and autonomy), level of distress (threat and challenge) and target of coping (self and context). The effectiveness of applying these coping strategies depends on the characteristics of the coping context and the individual (Lazarus 2000; Folkman and Moskowitz 2004). For example, the effectiveness of coping depends on whether the situation is characterized as a threat, loss, or challenge (McCrae 1984) and whether individuals perceived it as controllable and changeable (Conway and Terry 1992; Folkman 1984). Since traditional and social entrepreneurial settings are substantially different, this distinction suggests that individuals may apply a different path of coping.

Data And Methods

Methodological Approach

The methodological approach selected for this study is Verbal Protocol Analysis (Ericsson and Simon 1993). Its purpose is to make valid inferences from the content of discourse (Weber 1990), which is analyzed by means of a written transcript gained from individuals thinking aloud as they perform a task. Grounded in cognitive psychology, VPA is a good exploratory method to gain insight into the cognitive underpinnings of complex behaviors.

The logic behind the use of VPA is that while retrospective recall allows subjects to make up good stories about how they believe they solve problems, and stimulus–response methods force us to deduce subjects’ decision processes after the fact, concurrent verbalization allows the researcher to look directly inside the black box of cognitive processing, because of the structure of the short term memory system of the human brain (Ericsson and Simon 1980). VPA is a well-established methodological technique in studies investigating the decision making of entrepreneurs (e.g. Sarasvathy et al. 1998; Mason and Stark 2004; Choi and Shepherd 2005; Carter et al. 2007; Dew et al. 2009), where it has proved helpful to uncovering differences between groups of individuals. Consequently, we use VPA to understand the differences in information processing with regards to how social and commercial entrepreneurs respond and set to overcome potential failure in the process of entrepreneurial exit.

Selection of Participants and Data Collection

For this experiment we draw on prior research (Sarasvathy et al. 1998; Choi and Shepherd 2005) and select five social entrepreneurs and five traditional entrepreneurs. Our use of this technique with 10 people is consistent with current practice (Gregoire et al. 2010; Cable & Graham, 2000). Given the demanding nature of the procedures, verbal protocol studies tend to trade large sample sizes that would warrant statistical validity for methodological strategies that emphasize the internal, construct, and external validity of the observations. All 10 entrepreneurs were contacted via e-mail with a detailed message explaining the study’s purpose and procedures. In order to discriminate social from traditional entrepreneurs, we provided the participant with the following definition: ‘social entrepreneur is the individual whose primary mission is to create social value by providing solutions to social problems’ (Dacin et al. 2011:1204), and then asked about whether
he or she identifies as a social entrepreneur. As this group of entrepreneurs was recruited on the same date, all were expected to have similar experiences regarding broad economic and social conditions, minimizing the potential for bias between individuals.

Data collection in VPA studies usually involves three stages: scenario building, instruction and training, and scenario recording. As the aim of the study is to understand the differences in information processing of social and traditional entrepreneurs while facing potential failure and exit, we elaborated the scenarios using descriptions from actual ventures, one social-driven firm and one profit-driven firm. Before the experiment we explained the procedure and logic of thinking aloud and then provided the participants with three exercises to practice thinking aloud. The exercises were simple arithmetic problems, for example: how much is 235 plus 73? If the participant simply states the answer without talking aloud, the experimenter helped them to model the appropriate responding by saying, “Assume the problem is 235 plus 66. To solve it, I will think 235 plus 6 makes 241, plus 60 makes 301.” In order to capture significant data from protocols, all subjects were asked to set aside at least 90 minutes to complete the problems analyzed in this study, and all completed the task without time pressure. Think aloud protocols call for concurrent verbalization (Dew et al. 2009). Accordingly, after instruction and practice, we asked the participants to solve three decision problems in two different exit scenarios (Appendix A), and to think aloud continuously as they come to the solutions. After reading each scenario we asked the participants to reflect on the specific consequences of business failure and the consequences of exiting the firm, to devise possible alternatives, and to provide solutions regarding how he/she would deal with the various situations. The sessions lasted between 50 and 60 minutes, and all protocols were recorded and transcribed. (Table 1)

**Coding Procedure and Data Analysis**

The content of discourse is analyzed by means of a written transcript gained from individuals thinking aloud as they perform a task (Walker, 2005). In human factors research this approach has proved to be a good exploratory method to gain insight into the cognitive underpinnings of complex behaviors. The latter emerges from cognitive psychology and the assumptions that there is a set of underlying, hidden cognitive processes that generates all potentially observable human behavior, and that the information (i.e. symbols) stored in the different memory systems can be retrieved (Austin & Delaney 1998).

The analysis proceeds by extracting individual words, word senses, phrases, sentences, or themes and categorizing it according to a defined categorization scheme (Walker, 2005). Two researchers evaluated the protocols independently, based on a predefined coding scheme adapted from Skinner et al.’s (2003) coping classification. Consequently, our coding comprises four core coping strategies and eight semi-core coping strategies. Table 1 provides details on the coding scheme used in the analysis.

**Validity and Reliability**

In general, the validity of verbally reported thought sequences stem from its immediacy: the very short interval between the occurrence of thoughts and their verbalization (Dew et al. 2009). Therefore the concurrent verbalization technique suffers little from retrospection and introspection biases. In enhancing validity, two members of the research team analyzed verbal
protocols independently. In addition, we compare open protocols (where there is no evident cause of failure and possible exit) with verbalizations responding to problems that state explicitly the potential causes of failure (internal and external causes) and exit scenarios where failure is absent. All three types of scenarios (open, cause-driven and with no failure) are presented in Appendix A.

**Results And Discussion**

The purpose of this study is to understand the differences in information processing with regards to how social and commercial entrepreneurs respond and attempt to overcome potential failure (i.e. particular stressful situation) in the process of entrepreneurial exit.

Results show that participants mostly selected four coping strategies to cope with potential failure and exit: problem solving, cognitive restructuring, information seeking, negotiation and support seeking. While no differences have been recorded at individual level, the selection of coping strategy varies across scenarios regardless of the type of entrepreneur. Although problem solving is dominant in both venture scenarios, both social and traditional entrepreneurs react emotionally when the social venture faces a stressful situation. Instead of focusing on logical analysis and strategizing, both types of entrepreneurs show persistence of effort and determination to saving the company and avoiding exit.

In facing this particular stressful situation in the social scenario, both types select a distinct combination of secondary coping strategies comprising emotion-based support seeking, information seeking, negotiation by priority setting and proposing a compromise, and minimization of distress in the social venture scenario and problem-based support seeking, information seeking, negotiation by trade-offs and deal making and positive thinking in the traditional venture scenario. The quotes presented in Table 2 illustrate how both social and commercial entrepreneurs react and use distinct sets of primary and secondary coping strategies in the different venture scenarios.

In reacting to potential failure and exit in the social venture scenario, both social and commercial entrepreneurs decide to sustain the effort and not to exit the firm. This is a form of problem solving where the instrumental action manifests through persistence and determination. In most of the cases if the situation requires, they will sustain efforts by selecting someone who shares the values and spirit needed to help them continue with the business. The immediate actions selected by the entrepreneurs are not meant to be distracting, but nor suggest that they will elaborate a plan and follow a particular course of action. After seeking relevant information both entrepreneurs set priorities, for example, by getting someone on board or organizing the venture for not reducing its social impact, and finally they engage in a particular form of cognitive restructuring intended to minimize the potential negative consequences involved in having to make decisions regarding potential exit from the social venture. All in all, this is an emotion-focused response in search for emotional support. It seems that the lack of specific knowledge of this particular kind of business activity (i.e. social venturing) leads the entrepreneurs to engage in particular activities that, in their view, will allow the venture to continue producing social impact.

On the contrary, participants -both social and commercial- react rationally to approach failure in the traditional (i.e. profit-driven) venture scenario. They engage in instrumental actions and focus on logical analysis, planning, and strategizing. In doing so, both of them decide to use traditional business methods, such as selling their shares or liquidating, to deal with the stressful
situation. There is no emotional attachment; in any situation they will transfer the decision and responsibility of replacing him, continuing or abandoning to their co-founders. Here, neither the social nor the commercial entrepreneur shows intention to sustaining effort or maintaining the mission of the venture alive. In terms of support seeking, instead of focusing on the values of the supporter, they focus on the information and the plan they have already elaborated to select the means needed to execute the plan. In the traditional venture scenario given that problem solving leads them to exit with a profit, instead of to persist, the support needed tends to be problem-focused. After seeking relevant information both entrepreneurs engage in negotiation comprising trade-offs and deal making, for example, by elaborating strategies that yield the higher monetary benefit for their shares. Finally, they engage in a particular type of cognitive restructuring intended to produce positive outcomes at the individual level out of the stressful situation. They focus on positive side of making a profit out the selling of shares or the liquidation of the venture.

In figure 1, we summarize our findings by means of a response model consisting of two different sequences of coping strategies, that both social and commercial entrepreneurs use in facing potential failure and exit from a social venture (upper path) and a traditional venture (lower path). These findings suggest that the nature of the business is more influential than individual differences in modeling coping responses to the effects of stressful situations. While individual differences appear to matter more in the recognition of social opportunities, the nature of the venture seems to be responsible for shaping individual responses to potential failure and exit.

At the core of research on social entrepreneurship is a concern with understanding the distinctive ways in which entrepreneurs think, behave and react throughout the venturing process (Dacin et al. 2011). In this vein, we contribute to entrepreneurship literature in a number of ways.

First, our study uncovers distinct elements of the social entrepreneurship process, specifically in terms of how entrepreneurs, facing different venture scenarios, react and attempt to overcome failure in the process of entrepreneurial exit. However, while individual differences appear to matter more in the recognition of social opportunities, the nature of venture seems to be responsible for shaping individual responses to potential failure and exit. In doing so, we respond to an emerging critique that so far much of the social entrepreneurship literature focuses on individual social entrepreneurs and tends to characterize these individuals as heroic (Dacin et al. 2011). In Light's (2006) view, this heroic characterization and focus on individual success stories, limit indeed the ability to learn from processes of entrepreneurial failure.

Second, we provide new evidence on social entrepreneurship cognition and also extend literature on entrepreneurial cognition in general. Together with disentangling failure, response and exit, we go beyond the analysis of judgments or decisions involving opportunity evaluation and venture creation and growth (Mitchell et al. 2002) and explore cognition in the context of a critical component of the entrepreneurial process. This is relevant because, notwithstanding the multiple aspects involved in the exit decision, the process and underlying cognitive mechanisms are extremely understudied (DeTienne 2010).

Third, we contribute to the literature on the role of emotions in entrepreneurship. By analyzing coping responses in stressful situations such as venture failure, we indirectly examined the emotional issues related to exit. Consistent with the entrepreneurship literature on exit, our findings show that the exit process and its dynamics result from the intersection between the founder and the
firm. The type of firm (social versus traditional) shapes the entrepreneur's emotional attachment to the venture, which in turn influences the way he or she copes with potential failure. We have started to delineate the role of emotions when exit relate to failure and invite future research to address this issue in the more general context of entrepreneurial exits.

**Concluding Remarks**

Our study shows that decisions of social and traditional entrepreneurs vary equally depending on the nature of the business they are managing, not on the kind of entrepreneur they represent. Although scholars have often claimed that individual differences matter in the recognition of social opportunities (Seelos and Mair 2005) and in social entrepreneurship in general (Koe Hwee Nga and Shamuganathan 2010), we found that the nature of the venture is responsible for shaping individual responses to potential failure and exit. We hope that these findings will be a source of inspiration for researchers seeking to provide a deeper understanding of the differences between social and traditional entrepreneurship.

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**REFERENCES**


Appendix A. Research instrument

Scenario 1 - The Food Company Ltd

You are one of the founders of The Food Company Ltd, a store that offers healthy, local food at reasonable prices. By connecting an urban community with the local farming community, your store has sought to achieve its growth and profitability targets whilst operating within values based on community development and cohesion. The store sells a wide variety of produce, from locally sourced fruits and vegetables to branded cupboard and frozen food. By doing so, it supports local producers and reduces waste and emissions, while maintaining a diverse stock of products at reasonable prices. The customer base of The Food Company Ltd is diverse. Given its strategic location, it serves people from both low- and high-income communities. Together with selling food and helping clients make healthy decisions, the shop has contributed to the community by providing training and job opportunities to unemployed members of the community. Since you started this business three years ago the situation has changed, the business is not performing as it used to be, there is a risk of failing and you are considering exiting the firm.

Problem 1

Before we look at some possible reasons for this problem, please answer the following questions, one at a time:

• What are the consequences of failing, and how would you deal with this?
• What are the consequences of exiting The Food Company, and how would you deal with this?
• In evaluating these consequences, what are the main elements you would need to consider?
• Who would be involved?
• In case you decide to exit The Food Company, what alternatives do you see in this situation, and how would you proceed?

Problem 2

In reflecting about some of reasons for your possible exit of the firm, you come to the conclusion that there are several internal issues that may be the cause of the current risk of failing. Your business is going through a new phase of development where objectives such as growth and profitability require different skills. A complex and changing market environment has increased the perceived uncertainty of your business (Perceived uncertainty). You need velocity and agility but you have realized that your expertise and your knowledge are not enough to put together a successful strategy to manage the future of your venture (Personal ability). Notwithstanding your investment of money, time, and energy into this business, the recent poor performance and the risk of failure make you think about whether you have done the right thing in pursuing this business opportunity (opportunity costs).

• With this in mind, how would you respond and set to overcome these issues?

Problem 3

In reflecting about some of reasons for your possible exit of the firm, you come to the conclusion that there are also several external issues that may be the cause of the current risk of failing. The food industry is a complex and changing market environment and the ability to predict consumer food trends is one of the key success factors. You are convinced that your team executed the wrong marketing plan and you think that the poor financial results are attributed to ineffective communication and advertisement (venture’s ability to execute). In addition, the lack of trend awareness due to an incorrect market research is threatening your ability to respond to consumers’ requests as effectively as you did in the past. Consequently, your customer base and your market share have decreased and you are now wondering whether your business will still be able to achieve growth, profitability and the social goal of community development and cohesion (increasing commitment). You may want to reduce your personnel but you are worried about disappointing community expectations on job opportunities provided by your business (threat to social esteem).

• With this in mind, how would you respond and set to overcome these issues?
Scenario 2 - The Tools Company Ltd

You are one of the founders of The Tools Company Ltd, a store that offers tools and building materials at reasonable prices. By importing products from Asia, your store has sought to achieve its growth and profitability targets whilst operating within standards based on quality and affordability. The store sells a wide variety of products, from cheap workshop tools and materials to branded hand and power tools. By doing so, it provides individuals and professional builders with tools and materials to develop construction projects at affordable prices, while maintaining a range of top end products. The customer base of The Tools Company Ltd is diverse. Given its strategic location, it serves people from both low- and high-income communities. Together with selling building equipment and helping individual clients make decisions on their projects, the shop has a rental service that offers to small construction firms the possibility of renting a range of workshop tools by hour. Since you started this business three years ago the situation has changed, the business is not performing as it used to be, there is a risk of failing and you are considering exiting the firm.

Problem 1

Before we look at some possible reasons for this problem, please answer the following questions, one at a time:

- What are the consequences of failing, and how would you deal with this?
- What are the consequences of exiting the firm, and how would you deal with this?
- In evaluating these consequences, what are the main elements you would need to consider?
- Who would be involved?
- In case you decide to exit the firm, what alternatives do you see in this situation, and how would you proceed?

Problem 2 – Internal sources

In reflecting about some of reasons for your possible exit of the firm, you come to the conclusion that there are several internal issues that may be the cause of the current risk of failing. Your business is going through a new phase of development where objectives such as growth and profitability require different skills. A more competitive environment has increased the perceived uncertainty of your business (Perceived uncertainty). Your customers require more sophisticated solutions and you have realized that your expertise and your knowledge are not enough to put together a successful strategy to manage the future of your venture (Personal ability). Notwithstanding your investment of money, time, and energy into this business, the recent poor performance and the risk of failure make you think about whether you have done the right thing in pursuing this business opportunity (opportunity costs).

- With this in mind, how would you respond and set to overcome these issues?

Problem 3 – External sources

In reflecting about some of reasons for your possible exit of the firm, you come to the conclusion that there are also several external issues that may be the cause of the current risk of failing. Recently, a new a store that offers tools and building materials opened in your area. Your team, which failed to predict such event, is not able to effectively manage the market environment with an increased competition (Venture’s ability to execute). In order to achieve growth and profitability, for some of your products you decided to decrease the prices at the expenses of quality and affordability. This choice generated a lot of complaints from your customers as you were no more able to deliver the expected high quality products (increasing Commitment). You are now worried about your reputation and you do not want to disappoint the small construction firms that rely on your service (Threat to social esteem).

- With this in mind, how would you respond and set to overcome these issues?
Control
Problem 1

Let’s go back to The Food Company Ltd, the store that offers healthy, local food at reasonable prices, and of which you are one of the founders. In this part of the experiment we will assume that The Food Company is performing well. After three years everything looks in order and there is no risk of failing. However, for some reason you are considering exiting the firm. Please answer the following questions, one at a time:

- What are the consequences of exiting The Food Company, and how would you deal with this?
- In evaluating these consequences, what are the main elements you would need to consider?
- Who would be involved?
- In case you decide to exit The Food Company, what alternatives do you see in this situation, and how would you proceed?

Problem 2

Let’s go back to The Tools Company Ltd, the store that offers tools and building materials at reasonable prices, and of which you are one of the founders. In this part of the experiment we will assume that The Tools Company is performing well. After three years everything looks in order and there is no risk of failing. However, for some reason you are considering exiting the firm. Please answer the following questions, one at a time:

- What are the consequences of exiting The Tools Company, and how would you deal with this?
- In evaluating these consequences, what are the main elements you would need to consider?
- Who would be involved?
- In case you decide to exit The Tools Company, what alternatives do you see in this situation, and how would you proceed?

Figure 1. Sequences of Coping Strategies

<table>
<thead>
<tr>
<th>Primary Strategy</th>
<th>Secondary Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurs facing potential failure and exit from a social venture</td>
<td>Problem solving - Effort, persistence and determination</td>
</tr>
<tr>
<td>Entrepreneurs facing potential failure and exit from a traditional venture</td>
<td>Problem solving - Planning, logical analysis and strategizing</td>
</tr>
</tbody>
</table>
### Table 1. Coding Scheme

<table>
<thead>
<tr>
<th>Coping Strategy</th>
<th>Definition</th>
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<tbody>
<tr>
<td><strong>Core coping strategies</strong></td>
<td></td>
</tr>
<tr>
<td>Problem solving</td>
<td>Prototypical lower order approach and problem-focused categories of instrumental action, strategizing, and problem solving, including closely related ways of coping: as planning, logical analysis, effort, persistence, and determination.</td>
</tr>
<tr>
<td>Support seeking</td>
<td>Rational system that includes a wide array of targets for support and a variety of goals in going to people (e.g., instrumental help, advice, comfort, and contact). Two general types: problem-focused support seeking and emotion-focused support seeking.</td>
</tr>
<tr>
<td>Avoidance</td>
<td>Efforts to disengage or stay away from the stressful transaction, including cognitive avoidance, avoidant actions, denial, and wishful thinking.</td>
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<tr>
<td>Distraction</td>
<td>Active attempts to deal with a stressful situation by engaging in an alternative pleasurable activity. It includes a wide variety of alternative activities (primary control ways) or accommodative or secondary control ways of coping that includes acceptance and minimization.</td>
</tr>
<tr>
<td>Cognitive restructuring</td>
<td>Active attempts to change one's view of a stressful situation in order to see it in a more positive light. It includes lower order ways of coping, such as focus on the positive: positive thinking, optimism, and minimization of distress or negative consequences.</td>
</tr>
<tr>
<td><strong>Semi-core coping strategies</strong></td>
<td></td>
</tr>
<tr>
<td>Rumination</td>
<td>Passive and repetitive focus on the negative and damaging features of a stressful transaction; it includes lower order ways of coping, such as intrusive thoughts, negative thinking, catastrophizing, anxiety amplification, self-blame, and fear.</td>
</tr>
<tr>
<td>Helplessness</td>
<td>Set of actions organized around giving up or the relinquishment of control. It includes passivity, confusion, cognitive interference or exhaustion, dejection, and pessimism.</td>
</tr>
<tr>
<td>Social withdrawal</td>
<td>Actions aimed at staying away from other people or preventing other people from knowing about a stressful situation or its emotional effects. It includes social isolation, avoiding others, concealment, stoicism, and emotional withdrawal.</td>
</tr>
<tr>
<td>Emotional regulation</td>
<td>Active attempts to influence emotional distress and to constructively express emotions at the appropriate time and place. It includes self-encouragement and comforting, emotional control, relaxation, and emotional expression.</td>
</tr>
<tr>
<td>Information seeking</td>
<td>Attempts to learn more about a stressful situation or condition, including its course, causes, consequences, and meanings as well as strategies for intervention and remediation.</td>
</tr>
<tr>
<td>Negotiation</td>
<td>Active attempts to work out a compromise between the priorities of the individual and the constraints of the situation. It includes lower order ways of coping such as priority setting, proposing a compromise, persuasion, reducing demands, trade-offs, and deal making. It is considered to be a constructive autonomous response to coercive threats, actions, or situations.</td>
</tr>
<tr>
<td>Opposition</td>
<td>Rational second-order strategy that includes projection, reactance, anger, aggression, discharge, venting, and blaming of others.</td>
</tr>
<tr>
<td>Delegation</td>
<td>Rational second-order strategy that includes dependency, maladaptive help seeking, complaining, whining, and self-pity.</td>
</tr>
</tbody>
</table>

Adapted from Skinner et al. 2003
Table 2. Summary of VPA results: qualitative evidence

<table>
<thead>
<tr>
<th>Entrepreneur</th>
<th>Facing social venture scenario</th>
<th>Facing traditional venture scenario</th>
</tr>
</thead>
</table>
| Social Entrepreneur| SE1. Well actually I think my first move of action would be not to exit (determination), but my first move would be trying to find somebody who has the necessary strategic knowledge and abilities to help me steer out of these troubled waters (emotion-focused support seeking). It is not only about money, time and energy. It is the heart that goes into something (priority setting)  
SE2. I am for staying to the end (persistence)  
SE3. If I exit, there is always people in the middle, it is important to deal with this (minimization of distress) | SE1. I would go with an even lighter heart than in the example before (social venture). Because I understand the scenario is a rather commercial one, as an old-school example where growth and profitability are the main targets (logical analysis). Exiting The Tools Company (traditional venture) would not be that severe than compared to the other example (social venture),… they (co-founders) might be able to find somebody else who will replace me (problem-focused support seeking)... I guess I would try to sell my shares to them. If I could go with quite some earnings, some profit on a personal side, why not? (strategizing)  
SE2. This is not a firm with a moral goal, it is more productive and was born with a business mission and we have to evaluate the costs of the warehouse, how you can exit in a decent way, giving the closeout to the employees and understand if you close things down decently (planning, logical analysis) |
| Commercial Entrepreneur | CE1. Obviously I would try my best to remain open (determination) maybe re-inventing and changing the style of the company making it more simple (persistence)...it goes to low and high income communities maybe I would go more on the cheap side and I would try to work on what the market ask for...I would target the high-income communities with special and particular products and I would target low-income community with cheaper products probably (effort)  
CE2. I think you know, I think is awful a lot of people depending on this, we need to bring in an expert (minimization of distress and emotion-focused support seeking)  
CE2. (exiting the company) it would be in the way it causes the least destruction possible to the company (minimization of distress) | CE1. In case I decide to exit I would try and make sure first that I can sell part of my company (strategizing) or if it is something I believed in I would probably try and stay a little bit attached to it (deal making) maybe I would try to sell it to a third person, a third party, and or I would try and get one of those big chains my little company or my shop (strategizing) because it won't be my company anymore and brand it with a different name and stay and still work for somebody (trade-offs)  
CE2. I'll look at further invest, to invest in a person to come into my company with relevant skills to be able to actually solve this…growth and profitability require different skills (problem-focused support seeking)  
CE2. I would go to the manufacturers of the top end products and what I would propose to them, we put together some kind of deal with them where we can bring their top end products to the low end market obviously these people are not gonna buy this product because they can't afford it… (deal making) |

<table>
<thead>
<tr>
<th>Primary coping strategy</th>
<th>Problem Solving - effort, persistence and determination</th>
<th>Problem Solving - planning, logical analysis and strategizing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary coping strategies</td>
<td>Emotion-focused support seeking</td>
<td>Problem-focused support seeking</td>
</tr>
<tr>
<td></td>
<td>Information seeking</td>
<td>Information seeking</td>
</tr>
<tr>
<td></td>
<td>Negotiation – priority setting</td>
<td>Negotiation – trade-offs and deal making</td>
</tr>
<tr>
<td></td>
<td>Cognitive restructuring - minimization of distress</td>
<td>Cognitive restructuring - positive thinking</td>
</tr>
</tbody>
</table>