REGIONAL STIGMA OF FAILURE AND RISK TAKING AMONG ENTREPRENEURS (SUMMARY)

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Principal Topic

In this study, we focus on how the stigma of failure in a region impacts the resource commitment levels (e.g. work effort, money invested), and persistence decisions (Gimeno et al., 1997) of small business owner-operators. We hypothesize that in locations with lower levels of stigma, owners should show higher levels of venture resource commitment and persistence rates. Additionally, we examine how the demographic characteristics of owner-operators, by shaping the extent to which they are impacted by social stigma (Kowalewski, 1988; Shepherd et al., 2009), might moderate these effects.

Data and Methodology

We test our hypotheses by analyzing 8 years of panel data from a nationally representative cohort of entrepreneurs from the Kauffman firm survey (KFS). For the dependent variables in the study, we use measures from the KFS on the number of hours worked (work effort) and equity invested (money invested). To measure persistence rates, we used information in the KFS on firm closure decisions. For our primary independent variable, we follow prior research and use a measure of the severity of bankruptcy laws as a measure of the stigma of failure (Damaraju et al., 2010; Lee et al., 2011; Peng et al., 2010). We exploit the fact that bankruptcy laws vary from state to state in the U.S. (Cerqueiro & Penas, 2016; Robb & Robinson, 2012). We use the race, gender, and ethnicity of the primary owner-operator of the business as our moderating variables. We use OLS regressions with sample correction weights, and cox-hazard survival models for our analyses.

Results and Implications

Our results show that entrepreneurs who operate their ventures in regions with lower levels of stigma make greater resource commitments to their ventures. However, we also find that this behavior is less true for entrepreneurs who are part of a minority group (i.e. female entrepreneurs, non-Caucasian entrepreneurs). Our findings contribute to the literature on organizational stigma, by demonstrating the relationship between macro (i.e. societal stigmatization of firm failure) and micro (i.e. due to individual characteristics) forms of stigmatization. We also provide policy makers with guidance on the conditions under which regulatory changes might have stronger and/or weaker impacts on entrepreneurial decision making and behavior.

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