Does psychological capital help to learn and bounce back from entrepreneurial failure?

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Summary

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Keywords: business failure, learning from failure and psychological capital
DOES PSYCHOLOGICAL CAPITAL HELP TO LEARN AND BOUNCE BACK FROM ENTREPRENEURIAL FAILURE?

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Although entrepreneurial failure is perceived negatively by society, many researchers believe in its opportunity to learn from it. However, it is sometimes difficult to learn from a failure given the financial, psychological and social costs associated. Through our conceptual model, we take a more positive approach of entrepreneurial failure. We suggest that a high level of psychological capital plays a moderating role in the relationship between the negative consequences of failure and the positive side of learning from failure. This learning and high psychological capital would help failed entrepreneurs to pursue their entrepreneurial career.

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1. Introduction

Entrepreneurs play a key role in our current economic environment. Indeed, 99% of European firms are SMEs (European Commission, 2013). Faced with a complex, uncertain and ever-changing world, the creation and disappearance of firms are common and inherent in the economic process (Cannon & Edmondson, 2005; European Commission, 2007; Ucbasaran, Shepherd, Lockett & Lyon, 2012). In Europe, half of the businesses do not survive the first five years after their creation (European Commission, 2007). Although entrepreneurs taking a fresh start perform better (Eknamen & Wyer, 2007), few customers, suppliers and creditors give them a second chance (European Commission, 2007). Stigma associated to failed entrepreneurs prevents them from relaunching (Burchell & Hughes, 2006; Stam, Audretsch & Meijaard, 2008). For example, in Germany, only 3-8 % of them re-start a new venture (Metzger, 2006; Wagner, 2002).

These high rates of failure and low levels of re-creation raise curiosity. The European Commission pointed out that Member States take some measures to stimulate

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entrepreneurship and business creation, but do not develop actions to help failed entrepreneurs to recreate a new activity. This paradoxical attitude reflects the misjudgment of European citizens and Governments about failure (Janssen & Jacquemin, 2009). They do not consider it as inherent to a country’s economy. In order to not fear failure, the European Commission has proposed an action plan to promote a second chance policy. Its recommendations include promotion of second chance entrepreneurs in the media; failure’s destigmatization in educational programs, adoption of laws (in insolvency matter) distinguishing the fraudulent bankruptcies from those that are not, as well as implementation of financial, psychological and technical support to help entrepreneurs to re-launch.

This will to change mentalities is also a concern in the academic world. After a long focus on entrepreneurial success, researchers are now looking at failure as a way to future success for both entrepreneurs and the economy as a whole (Singh, Corner & Pavlovich, 2007). Many researchers consider it as a real opportunity to learn (Cannon & Edmondson, 2005; Cope, 2011; McGrath, 1999; Minniti & Bygrave, 2001, Shepherd, 2003; Singh et al, 2007. Ucbasaran et al., 2012). However, it might also be difficult for an entrepreneur who failed to learn from his/her experience because failure is often seen as an emotionally traumatic event (Cope, 2011; Shepherd, 2003).

The major costs of a business failure for an entrepreneur are financial, social and psychological (Ucbasaran et al., 2012). The financial costs could be associated to a loss of or a reduction in personal income. The social costs concern the impact of the failure on personal and professional relationships, such as divorce for instance (Cope, 2011) and loss of an important social network (Harris and Sutton, 1986). The stigma associated to failure is the social devaluation of the person who does not or no longer meet the social norms (Efrat, 2006 cited in Ucbasaran et al., 2012) which is profoundly discrediting (Sutton and Callahan, 1987). Most psychological costs experienced by entrepreneurs after the failure often are emotional and motivational. The negative emotions are, for example, pain, remorse, shame, humiliation, anger, guilt, responsibility and fear of the unknown (Cope, 2011; Harris & Sutton, 1986; Shepherd, 2003). Concerning motivational aspects of psychological costs, some authors noted that the entrepreneurs who fail a venture have a sense of helplessness that decreases their beliefs in their ability to lead tasks with success in the future and generates rumination that impedes task performance (Bandura, 2001; Shepherd, 2003). Moreover, the intensity of these negative consequences can be influenced by the individual response as well as the environmental context in which the entrepreneur finds him/herself (Ucbasaran et al., 2012). All of these reasons (the effects and the magnitude of these interconnected costs on the entrepreneur) prevent the good process of learning process from failure (Ucbasaran et al., 2012).

However, some researchers believe that positive emotions also play a key role in learning from failure and encourage future researches on the impact of positive emotions on
Does psychological capital help to learn and bounce back from entrepreneurial failure?

entrepreneurial behavior after an entrepreneurial failure (Byrne & Shepherd, 2013; Ucbasaran et al, 2012). Based on this call and assuming that all entrepreneurs do not react in the same way to business failure, the question at the heart of this conceptual communication is: Can a positive psychological state explain why some entrepreneurs restart while others do not?

To answer this question, we will use a concept from the field of Positive Organizational Behavior, namely the psychological capital (PsyCap) developed by Luthans, Youssef and Avolio (2007, p.). These authors define the psychological capital as « a positive psychological state of development of the individual characterized by high degrees of self-efficacy, optimism, hope and resilience ». In the workplace, human and social capitals have been studied extensively, leaving aside the internal resources. The human capital is related to what a person knows (knowledge, abilities, skills and experience) whereas social capital refers to people we know (our relationships and professional networks). According to Luthans and Avolio (2009), psychological capital can be complementary to these two capitals because it concerns who we are and what we become (Luthans, Vogelgesang, & Lester, 2006). Therefore, this psychological capital could help entrepreneurs to learn from their failure and to make a decision about their subsequent career.

This communication will consist of three parts. First, we will present our theoretical background. To this end, we will define entrepreneurial failure and explain the concepts of psychological capital and learning process from failure. Next, through our theoretical argument, we illustrate our conceptual model. Finally, we will discuss the theoretical and practical implications of this model.

2. Theoretical Background

Our argumentation will consist of five sections. We first define the entrepreneurial failure before explaining the concepts of psychological capital and learning from failure. Then, we will discuss the barriers and facilitators of learning. Finally, we will examine the impact of the latter of and psychological capital on the re-creation of a business.

2.1. Business Failure Definition

Before discussing learning from failure, it is important to define entrepreneurial failure. Studies on entrepreneurial failure are quite recent. To date, there is no universally accepted definition of entrepreneurial failure. Authors define it based on their own theoretical approach (Smida & Khelil, 2010). The most common definition reduces it to insolvency or bankruptcy (Zacharakis, Meyer & DeCastro, 1999). Even if this definition is useful to operationalize and build samples (Singh et al., 2007), for some authors, entrepreneurial failure cannot be reduced to simple bankruptcy (Cannon & Edmondson, 2005; McGrath, 1999; Singh et al, 2007; Smida & Khelil, 2010; Ucbasaran et al., 2012).
In addition to the economic aspects, expectations and goals set by the entrepreneur must also be taken into account (McGrath, 1999; Singh et al., 2007; Smida & Khelil, 2010; Ucbasaran et al., 2012). We endorse the view of Ucbasaran et al. (2012, p.13) who define entrepreneurial failure as « the cessation of involvement in a venture because has not met a minimum threshold for economic viability as stipulated by the entrepreneur ». In a similar vein, Khelil (2011 in Khelil, Smida & Zouaoui, 2012) suggests that the failure occurs by the entry of the new business in a spiral of economic failure (destruction of resources) and/or by the entry of the entrepreneur in a psychological state of disappointment. In the absence of a financial and/or moral support, this entrepreneur will see his/her business disappear. This author offers a multidimensional view of failure and introduces the concept of "support". The latter can be both external, through the family, professional or private network, institutions, etc., and internal, i.e. the own resources of the individual. In this paper, we focus on the resources of the entrepreneur in a failure situation, specifically his/her psychological capital.

2.2. Psychological capital

In a world where economic uncertainty, constant competition and perpetual technological advances prevail, companies can gain a sustainable competitive advantage by developing psychological capital of their human resources (Luthans, Youssef & Avolio, 2007). In the case of SMEs, an important psychological capital is an asset to the entrepreneur-manager, both for the development of his/her business and in a situation of failure. As a result, we decided to study it in the context of entrepreneurial failure. We believe that it can help the entrepreneur to recover more easily from the loss of his/her business. This psychological capital (or PsyCap) is defined by Luthans et al. (2007, p.3) as:

« An individual’s positive psychological state of development characterized by:
(1) Having confidence (self-efficacy) to take on and put in the necessary effort to succeed at challenging tasks;
(2) Making a positive attribution (optimism) about succeeding now and in the future;
(3) Persevering toward goals and, when necessary, redirecting paths goals (hope) in order to succeed; and
(4) When beset by problems and adversity, sustaining and bouncing back and even beyond (resiliency) to attain success ».

As mentioned in its definition, psychological capital is considered as a state, meaning that individuals can develop these four components to overcome hardships (Chen and Lim, 2012; Luthans, 2002a; Luthans & Avolio, 2009; Luthans et al., 2006b; Luthans et al., 2007). This idea that these components can be developed is quite recent. Historically, these four concepts have long been studied as personality traits. For instance, the first theories on resilience considered that an individual was resilient by genes (Coutu, 2002).
But some counter-examples, like resilience from a beloved person’s loss or a traumatic experience, showed that it is more a state (Bonanno, 2004).

Note also that self-efficacy, optimism, hope and resilience intertwine and interact. Because of their mutual influences, a synergy occurs between them, where the whole is greater than the sum of its parts (Luthans et al., 2006a; Luthans, et al, 2007). This means that a person who has the will and a clear idea of the path she must follow to achieve its objectives will be more motivated and capable of overcoming adversity (Luthans et al., 2007). A person who trusts will be able to use the hope, optimism and resilience for specific tasks in different areas of his/her life. A resilient person will be able to use coping mechanisms to develop a realistic and flexible optimism. In turn, self-efficacy, hope and resilience can also help to develop a positive attribution style to actions under one’s control.

**Self-efficacy** has its origins in the social cognitive theory of Bandura (1986). It refers to « one’s conviction (or confidence) about his or her abilities to mobilize the motivation, cognitive resources and courses of action needed to successfully execute a specific task within a given context » (Stajkovic & Luthans, 1998b, p.66). This sense of efficacy is built through five essential cognitive processes: representation, intention, observation, self-regulation and self-reflection (Luthans et al, 2007). These cognitive processes allow an individual to take time to reflect on both his/her past successes and failures, learn from them and use this self-knowledge to progress.

In the field of entrepreneurship, self-efficacy has been widely investigated. Studies have shown that entrepreneurs have a high degree of self-efficacy (Hayek, 2012). Confident entrepreneurs are motivated to make the necessary effort to successfully conduct his/her business (Trevelyan, 2011). However, a failure can undermine that trust (Boss & Sims Jr., 2008). In such a situation, it is not general self-efficacy which decreases, but the one related to a specific task (Smith, Kass, Rotunda & Schneider, 2006). Therefore, to help an individual to bounce back from a setback, we must first restore the confidence in his/her ability to succeed the task failed. In this point of view, self-efficacy could help an entrepreneur to recover from a failure (Boss & Sims Jr., 2008). Indeed, by developing it, an individual reflect on his/her past successes and failures, which can contribute to learning.

Inspired by the work of Snyder, **hope** is defined as a positive motivational state based on a sense of achievement from the interaction between the desire (i.e. the energy directed to a goal) and the way/path to get there (i.e. planning to attain goals) (Snyder, Irving and Anderson, 1991). In other words, hope is « a cognitive or “thinking” state in which an individual is capable of setting realistic but challenging goals and expectations » and reaching out to these by his/her self-determination, energy and internal control’s
perception (Luthans, et al., 2007, p.66). In addition, hope allows a person to generate alternative ways to achieve his/her desired goals when the original path is not possible.

In the field of entrepreneurship, the perception of internal control, one of the mechanisms that creates hope, has been investigated. Research has shown a positive relationship between hope and satisfaction of entrepreneurs owning a business (Hayek, 2012; Jensen & Luthans, 2002). In the case of a failure, nurturing hope could allow the entrepreneur to consider alternative ways to continue an entrepreneurial career if he/she desired it, and therefore could deploy the necessary energy to get there.

Conceptualized by Seligman (1998), optimism refers to the attribution of positive events to internal, permanent and pervasive causes, and negative events to external, temporary and related to a specific situation cause. In contrast, a pessimistic attribution style interprets positive events as belonging to external and temporary factors related to a particular situation and explain negative events in terms of internal, permanent and generalized factors. From this point of view, optimistic people tend to consider the causes of desirable events are under their control (Luthans et al., 2007). Moreover, they expect that the causes of these events persist over time and will be helpful to manage other situations in different areas of their lives. In this way, they see things positively and internalize the positive aspects of their lives not only in the past and the present but also in the future. Luthans et al. (2007) suggest that this optimism must be realistic and flexible. It should not be pushed to extremes, in which case an individual could attribute all success to him/herself, try to control all aspects of his/her life, attribute failures only to external causes and leak his/her responsibilities. In this respect, people with a high degree of realistic optimism are capable of gratitude for factors contributing to their success. Similarly, in a situation of failure, they are able to classify information, to establish facts, to learn from their mistakes, to accept what they cannot change and to move forward.

In the organizational literature, some researchers have shown that the PsyCap optimism can lead to a self-fulfilling prophecy (Peterson & Chang, 2002). In addition, a person with high realistic optimism is both motivating and more motivated to achieve success for long-term (Peterson, 2000). In addition, optimists are more likely to embrace change, to see opportunities in the future and focus on these opportunities, even in negative situations (Luthans et al., 2007). Therefore, in a situation of failure, an optimistic entrepreneur would consider this negative situation as a step allowing him to accomplish future success and to identify new entrepreneurial opportunities.

In turn, resilience is defined by Luthans (2002a) as the ability to bounce back or quickly recover from a hardship, a conflict, a failure or even positive events such as progress and increased responsibilities. This resilience involves everyday skills and psychological strengths (Masten, 2001; Masten & Reed, 2002). People of all ages and psychological conditions can maintain and nurture resilience. Therefore, resilient people are not exceptional and rare persons (Coutu, 2002).
According to Hayek (2012), resilience is an important characteristic of entrepreneurs because they are known for their determination when they face challenge. But in a situation of failure this resilience can be undermined. Therefore, we suggest that nurturing or developing their resilience these entrepreneurs can quickly recover from their unsuccessful experience and can re-start a business if they wish.

At this stage, to better link the elements of psychological capital in the learning process and before presenting our conceptual model and its proposals, we will explain what we mean by learning from entrepreneurial failure.

2.3. Learning from failure

Because failure is inherent to the economic life, several researchers in management and entrepreneurship it as a good opportunity to learn and never repeat the same mistakes (Cannon & Edmondson, 2005; Cope, 2011; McGrath, 1999; Minniti & Bygrave, 2001; Shepherd, 2003; Ucbasaran et al., 2012). Consequently, failure will contribute to entrepreneurial learning.

Entrepreneurial learning is also seen as a dynamic, discontinuous and changing concept rather than a stable, consistent and predictable one (Cope, 2005). Indeed, the entrepreneurial process is characterized by significant and critical learning events by which an entrepreneur improves his/her personal and entrepreneurial knowledge that will eventually determine the success of his/her venture (Deakins & Freel, 1998). Minniti and Bygrave (2001) even state that entrepreneurs increase their subjective stock of knowledge particularly through non-routine events.

In the context of entrepreneurial learning theory, business failure could be a non-routine event by which an entrepreneur can learn to improve his/her entrepreneurial knowledge and pursue an entrepreneurial career (Shepherd, 2003; Ucbasaran, Westhead, Wright & Flores, 2010). According to Minniti and Bygrave (2001), both positive and negative experiences shape entrepreneurs’ knowledge and influence the course of their future choices. In line with these authors, Shepherd (2003) defines learning from business failure as the ability for an entrepreneur to revise his/her previous knowledge on how to handle his/her own business efficiently by integrating the feedback information about the reasons why the business failed. From this perspective, failures seem to be “the seeds of subsequent project success” (Shepherd, Covin & Kuratko, 2009a).

Cardon and McGrath (1999) suggest that it is really important to consider failure as a "learning journey" which means that the process of sense-making behind learning from failure is gradual over time and constitutes a dynamic process (Cope, 2011). This sense-making process is realized through three interconnected mechanisms such as scanning, interpretation and learning (Gioia & Chittipeddi, 1991; Thomas, Clark & Gioia, 1993), the latter acting as a retroaction feedback for scanning and interpreting information.
(Shepherd et al., 2009a). Specifically, the scanning information is a selective attention to relevant information and a collection of these to promote the sensemaking. When information is collected, an individual gathers it into structures appropriate for a better comprehension of its meaning (Gioia, 1986; Taylor & Crocker, 1981). This process refers to the interpretation of the information. Learning dynamics relate to actions taken by an individual (Daft & Weick, 1984) following scanning and interpretation dynamics, leading to significant modifications in one’s current practices (Ginsberg, 1988; Thomas et al, 1993). As mentioned before, these three mechanisms work together because information collected by scanning dynamics is essential for the interpretation (Daft & Weick, 1984). In turn, interpretation structures this information in order to act in a specific way (Gioia & Chittipeddi, 1991), and the action(s) resulting from learning influence, in its(their) turn, scanning and interpretations of new information (Daft & Weick, 1984).

2.4. Barriers and facilitators of learning

Learning from entrepreneurial failure is not an easy task. Indeed, negative emotions sometimes interfere with an individual’s attention when he/she is processing information (Mogg, Mathews, Bird & MacGregor-Morris, 1990) which affects learning (Bower 1992). Focusing uppermost on emotions that come with failure may interrupt prematurely the information process about potential causes of failure (Bower, 1992). As we said before, the magnitude and the intensity of financial, social and psychological costs may obstruct the learning process of failure (Ucbasaran et al., 2012). The latter is also perceived as intimidating (Rogoff, Lee, & Suh, 2004) since the entrepreneur may express a loss of self-esteem (Jenkins, Wiklund & Brundin, 2012), feelings of guilt, shame and remorse that are difficult to handle (Ucbasaran et al., 2012). Moreover, he/she is not used to deal with it because he/she learned by socialization to keep a distance from negative situations (Cannon & Edmondson, 2005). In this context, learning from failure is not a natural, automatic or instantaneous act (Wilkinson & Mellahi, 2005). This leads to the first proposition:

Proposition 1: Financial, psychological and social costs negatively influence learning from failure.

To overcome these negative emotions, a failed entrepreneur comes through a “grief recovery process” that handles and eventually manages the loss of his/her business (Shepherd, 2003; Shepherd et al, 2009a.). Shepherd (2003) suggests that negative emotions can in some way contribute to the learning process. This beneficial part depends on both the intensity of the grief (which symptoms are anger, guilt, anxiety, hopeless, withdrawal and depression) and on where the entrepreneur is in this process. The grief recovery process consists of two distinct but complementary strategies: loss and restoration orientations.

The loss orientation strategy is composed of three phases: a confrontation of loss, a reassessment of the events before and at the time of failure and the awareness of different
causes of failure (Shepherd, 2003; 2009; Stroebe & Schut, 1999). The restoration orientation is entirely different. It consists of distracting from and avoiding all thoughts linked to the loss, as well as, eliminating secondary sources of stress generated by the business failure (Shepherd, 2003; 2009; Stroebe & Schut, 1999). With the oscillation between these dual processes, an entrepreneur adopts the best strategy to handle the loss of his/her business (Cope, 2011; Shepherd, 2003) by regulating his/her emotions. Thereby, emotional interferences are reduced and ability to learn from failure is increased.

In their study, Byrne and Shepherd (2013) found that an emotion-focused strategy also helps entrepreneurs to manage their negative emotions. Indeed, high negative emotions motivate the entrepreneur to make sense of his/her loss while higher positive emotions provide him/her the necessary cognitive resources that will facilitate and motivate this sense-making. Cognitive strategies focusing attention on failure and encouraging self-reflection also provide a better understanding of failure.

As we mentioned above, the four factors of psychological capital can also help an entrepreneur to think about failure. First, we consider that the five cognitive processes (i.e. the representation, intentional, observation, self-regulation and self-reflection) building self-efficacy (Luthans et al., 2007) will help to learning from failure. Hope, optimism and resilience also are resources that will manage failure and its negative consequences to promote learning. In other words, the psychological capital would act as a buffer between the negative consequences of failure and learning. In this context, we suggest the following propositions:

**Proposition 2:** The psychological capital moderates the negative relationship between the psychological, social and financial costs of entrepreneurial failure and learning from it.

**Proposition 3:** The psychological capital has a direct and positive effect on learning from failure.

As far as we know, no research has yet been undertaken on the moderating effect of psychological capital on this relationship.

### 2.5. Impact of learning and psychological capital on recreating

By learning from his/her entrepreneurial failure, an entrepreneur increases his/her knowledge on different levels: his/her knowledge about him/herself (his/her strengths and weaknesses, skills, abilities and entrepreneurial approach’s efficacy), the disappearance of his/her venture (strengths and weaknesses of the venture, reasons for failure), the nature of his/her networks and relationships (managing a team, working with a partner, persuading investors, building valuable collaborations) and the venture management (development of new models of how to manage and grow entrepreneurial ventures) (Cope, 2011). These learning outcomes give him/her a future-oriented vision and increase
his/her entrepreneurial preparedness’ level to pursue entrepreneurial activities. This new knowledge will be even more useful if the entrepreneur uses it in another business (Shepherd, 2003; Shepherd, Wiklund & Haynie, 2009b), whether it is his/her own new business or if he/she pursues his/her career in the entrepreneurial field without creating a new business (Cope, 2011). This leads to the following proposition:

**Proposition 4: Learning outcomes from failure have a positive relationship with the intention of re-creating a new business.**

Other empirical studies also show that people who have started a business are more likely to re-create a new one compared to those who have never tried the entrepreneurial adventure (Caroll and Mosakowski 1987; Schultjens and Stam, 2006). Entrepreneurial intention is a sine qua non condition for entrepreneurial behavior (Krueger, 2003). In their study, Schultjens and Stam (2006) found that most entrepreneurs who have ceased their activity still keep their entrepreneurial intentions at the time of their first business closure. According to these authors, the amount of hours invested in the first company and the experience of running a business contribute to the intention of re-starting a new business.

To our knowledge, few studies have been conducted on the impact of learning from failure on the intention to re-create and the re-creation of a new business. Authors such as Schutjens and Stam (2006) have empirically demonstrated that some entrepreneurs (20% of sample) who closed their business (i.e. they have taken this decision for personal and voluntary choice, not necessarily due to a lack of economic viability or necessity) do not want to re-launch a venture while a majority (69%) are attracted by the independence offered by this career choice and develop strong intentions to re-create a new business. The remaining 20% of their sample are uncertain. They do not yet know if they will re-start a new venture or not.

Moreover, entrepreneurs who have experienced a business exit (by closing, ceasing or leaving their ventures) have more relevant entrepreneurial skills and identify more often business opportunities than those who did not undergo an entrepreneurial exit (Hessels, Grilo, Thurik & Zwan, 2011). In this context, a new business created by a renascent entrepreneur – that is, an entrepreneur who has exited his/her business and who will re-enter into entrepreneurship (Stam et al., 2008) – will present better performance (Ucbasaran et al., 2012). There is a lack of research proving this assumption but a recent study by Yamakawa, Peng and Deeds (2013) has investigated it. These researchers interviewed Japanese entrepreneurs who re-launched a venture after one or more unsuccessful experiences. They studied the influences of cognitive determinants (that is the internal attribution of the cause of failure and intrinsic motivation to re-start a new business) and the experience of failure on the growth of their new business. Entrepreneurs attributing the cause of failure to them had better performance when they had a small number of failures. By contrast, the performance decreased for those who had
Does psychological capital help to learn and bounce back from entrepreneurial failure?

experienced too many failures. For these researchers, entrepreneurial failure is not always beneficial. The relationship between previous failure and the pursuit of an entrepreneurial career is influenced by the cognition of the entrepreneur.

Given that the pursuit of an entrepreneurial career is influenced by entrepreneurs’ cognitions (Yamakawa et al., 2013), the development of psychological capital among failed entrepreneurs should facilitate their learning and promote the re-creation of a new business. Psychological capital is a mechanism by which past experiences of failure can shape entrepreneurs to pursue their entrepreneurial journey (Jenkins, Wiklund & Brundin, 2012). By attributing negative events to external, uncontrollable and varied causes, an individual develops and maintains his/her resilience optimism (Luthans & Youssef, 2004). The latter can help an entrepreneur to preserve his/her entrepreneurial motivations after such a negative experience (Jenkins, et al., 2012). The pursuit of an entrepreneurial career could be related to a potential high resilience of the entrepreneur (Jenkins et al. (2012). This leads to the following proposition:

Proposition 5: The psychological capital has a positive influence on the intention to re-create a business.

In a context of entrepreneurial failure, the development or consolidation of entrepreneurs’ psychological capital can mitigate the negative impact of the failure’s consequences on learning. He/she will learn from his/her mistakes and will therefore be motivated to launch a venture again. This leads to our last proposition:

Proposition 6: If failed entrepreneurs have a high psychological capital, they will learn more easily from their unsuccessful experience, have a more important intention to re-create a business, and actually re-create a new business.

3. Conceptual framework

Figure 1 presents our conceptual model. It is based on the fact that psychological capital would promote, on the one hand, learning in the context of entrepreneurial failure and, on the other hand, the intention of the failed entrepreneur to pursue his/her entrepreneurial career. The failure’s consequences will prevent the good process of learning from failure (Ucbasaran et al., 2012) (P1). We assume that this negative relationship may be moderated by psychological capital, the latter allowing the entrepreneur to be in a positive state conducive to learning (P2). If this positive state encourages the entrepreneur to learn from his/her mistakes (P3), he/she could manifest the desire to continue his/her entrepreneurial career by not repeating the same mistakes (P4 and P5). Since the intention to create is a condition sine qua non (Krueger, 2003) to the effective creation, we assume that the intention of re-creating a new business will help to lead to the real re-creation of a new venture (P6).
4. Limitations and future methodology

The vast majority of the papers on our topic are theoretical. Our paper follows this line, but it will be tested empirically in the near future. In the following paragraph, we will explain what kind of research design will be used, how we will construct our sample and how we will measure our variables.

First, we will conduct a longitudinal study on failed entrepreneurs with four times of measurement: at the time of bankruptcy announcement by the Commercial Court (t0), four months later (t1), one year later (t2) and two years later (t3). Because overcoming a business failure takes time (Cope, 2011) and entrepreneurial learning is discontinuous (Cope, 2005), we suggest that entrepreneurs could develop some learning between each of these times of measurement. With these four phases, we could better grasp how entrepreneurs manage the aftermath of their failure, their learning process and intention to re-launch a venture.

To collect the data, we will contact Commercial Courts in Belgium. In that country, all bankruptcies are declared by courts with a public announcement. Then, we will meet the entrepreneurs. If they agree to participate to our study, we will set an appointment in order to fill in our questionnaire either face-to-face or by phone interview. After four months, one year and two years, we will contact them again to administrate the same questionnaire and observe their evolution.

Concerning the questionnaire, we will measure the business failure’s consequence by using several scales. To investigate the financial strain and social consequences, we will borrow items adapted from Folkman and al. (1986) by Jenkins et al. (2012) on loss of self-esteem and financial strain. Psychological consequence will be analyzed with the
Does psychological capital help to learn and bounce back from entrepreneurial failure?

scale of Blau (2007) who explored the grief process after a worksite closure. Jenkins et al. (2012) adapted Blau’s items to a business failure context. We will use the adaptation rather than the original scale. For the psychological capital, we will use the scale developed by Luthans et al. (2007). Each component consists of six items on a 6-point Likert scale. For the learning from failure in the business failure context, we will develop a measure for the specific purposes of our study. To measure the intention to re-create a business, we will take an item coming from the Global Entrepreneurship Monitor because it has been used several times. Finally, control variables such as age, gender, level of education, type of studies and number of previous business founded will also be measured.

This research design has two main limitations. First, we are conscious that a longitudinal study with four phases can lead to a high mortality within the participants’ sample. We will have to contact as many failed entrepreneurs as possible to participate to our study and to create strong links with them that will encourages them to continue to share their experience with us. Second, we need to have certain heterogeneity in levels of psychological capital in order to have differences between entrepreneurs.

5. Theoretical and practical implications

From a theoretical point of view, understanding the barriers and facilitators of learning from failure and their implications for the pursuit of an entrepreneurial career process is an interesting avenue for future research. Some authors have begun to investigate the cognitive and emotional processes that influence the performance of a new business after previous business failures (Yamakawa et al., 2013) or to make sense of this failure (Byrne and Shepherd, 2003).

Few studies have focused on mechanisms to facilitate learning from entrepreneurial failure. Through our theoretical model, we try to answer the following question: Does a positive psychological state allow better learning and re-starting after a business failure? The positive approach of psychological capital would enable entrepreneurs to capitalize on their failure’s experience in order to better bounce back from it. A study on job search has shown that through interventions and training to help job seekers to develop their psychological capital, they increased their perceived employability in their job search (Chen & Lim, 2012). By developing a high degree of psychological capital, unemployed people are more confident about their abilities and skills, are more optimistic about the future, do not give up their job search and invent solutions to overcome obstacles in their job search. This positive attitude encourages them to look for opportunities rather than to attribute their difficulties to external causes and blame themselves (Chen and Lim, 2012). While a job search situation is not similar to an entrepreneurial failure, we believe that the development of psychological capital may have similar effects on the ability of entrepreneurs to learn from their failure and continue their entrepreneurial career.
The concept of psychological capital is used more and more in the field of organizational behavior. Some authors have also started to introduce in the field of entrepreneurship (Jensen & Luthans, 2002; Jenkins et al, 2012.). Its application to the entrepreneurial process could be considered earlier at the creation of a venture, as a determinant of opportunities identification or intention to create, or later, as a determinant of performance.

Besides the psychological capital, other cognitive or affective mechanisms may also be relevant to promote learning from failure in order to re-create a new business. In particular, we believe on the potential of the concept of hardiness developed by Maddi (2013). Luthans et al. (2007) also suggest that cognitive processes, such as creativity and wisdom, as well as emotional processes, perceived well-being, the flow (that is a state of maximum concentration) and humor also should to be investigated. The latters could also be constitutive of psychological capital (Luthans et al., 2007).

In terms of the practical implications, psychological capital is a tool to be exploited for the development of the entrepreneur in general and, more specifically, of the entrepreneur in a business failure context. This concept has two major advantages: it can be developed and is available to everyone (Chen & Lim, 2012; Fleig-Palmer & Mandernach; Luthans, 2009; Luthans, 2002a). Providing training for entrepreneurs to develop their psychological capital would be potentially appreciated by the European Commission. Indeed, in its 2007 report, it is recommended to develop psychological and technical supports for entrepreneurs who have failed, through, for instance, training and specific supervision.

6. Conclusion

Considering that the half of newly established firms does not survive during the first five years after creation (European Commission, 2007) and that very few failed entrepreneurs re-launch a new business thereafter, it seemed appropriate to focus on these entrepreneurs.

Many researchers agree that entrepreneurs learn from their entrepreneurial failure (Cannon & Edmondson, 2005; Cope, 2011; McGrath, 1999; Minniti & Bygrave, 2001, Shepherd, 2003; Ucbasaran et al., 2012). However, given the financial, psychological and social consequences of business failure and social stigmatization of these entrepreneurs, this learning is not an easy task (Ucbasaran et al., 2012). Despite these barriers, 3 to 8 % of them re-start a new activity. How to explain this figure? From this, we have developed our conceptual model. Its originality is based on a positive approach to promote learning from failure and, lates, re-creation after it. To do this, we used the psychological capital developed by Luthans et al. (2007). We suggest that PsyCap may decrease the negative effects of the failure’s consequences on entrepreneurial learning process. In addition, we assume that it also has a positive effect on the intention to re-create a business; this
intention can be achieved by effective re-creation of a new venture. Similarly, the accumulation of knowledge on the entrepreneur himself, the end of his/her business, the management of a business and the professional relationships can positively influence his/her intention to create a new venture and really do it.

Finally, we believe that psychological capital has a bright future in entrepreneurship research. In addition to its usefulness in understanding learning from failure and re-creation, psychological capital could be investigated in the creation process and opportunities identification or as a factor promoting the leadership of the entrepreneur and business performance.

References
Does psychological capital help to learn and bounce back from entrepreneurial failure?


