

The Effect of Entrepreneur's Fear of Failure on Firm's Entrepreneurial Orientation

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Abstract: This study focuses on the fear of failure (FF) in entrepreneurship and its effect on the entrepreneurial orientation (EO) as a strategic orientation in firms. There has been much research on EO as a predictor of organizations' performance since it is considered a manifestation of the entrepreneurial direction inside the organization. Yet, the research on the relationships between individual-level variables and EO itself still has room for contribution, especially the internal aspects related to the entrepreneur or the manager. Therefore, this research aims to explore FF in entrepreneurship and its inhibiting and motivating roles. In addition, given that the firm is the unit of analysis in this study, this research explained how an entrepreneur's FF affects the EO of the firm amidst the COVID-19 outbreak. The study administered a quantitative research design using a structured questionnaire. The results showed a positive influence of the entrepreneur's fear of failure on the firm's entrepreneurial orientation manifested in the firm's innovativeness dimension. However, the other two dimensions that contribute to the firm's EO representation (proactiveness & risk-taking) showed insignificant relationships with the entrepreneur's FF.

Keywords: entrepreneurial orientation, fear of failure, upper echelons theory, innovativeness, proactiveness, risk-taking

1. Introduction

Various studies investigated startup failure reasons in an attempt to help predict sources of failure and consequently, avoid early failures. Yet, most of the research focused more on the economic aspects of the business such as poor financial planning and weak business models (Arenius & Minniti, 2005), or demographic factors such as age, gender, and educational background. Knott and Posen (2005) pointed out that 80%-90% of startups fail during the first three years. However, after 10 years of ongoing efforts, Patel (2015) observed that still 90% of the newly founded startups eventually fail. One of the suggested reasons that needs to be further studied is other psychological factors (in addition to the demographic and economic reasons) that contribute to business failure. Therefore, it is crucial to widen the research elements and consider the psychological reasons for their significant influence in predicting the behavior of entrepreneurs' strategic orientation and business performance (Covin, Greene, & Slevin, 2006; Lumpkin & Dess, 1996). Hence, this study focuses mainly on fear of failure (FF) as one of the psychological barriers that has been attached to the entrepreneurship journey. Also, this study examines the impact of fear of failure on strategic business direction known for the firm's entrepreneurial orientation.

This research aims to add to the EO's theoretical understanding by emphasizing the role of the entrepreneur's emotions, specifically FF on the firm's EO. The researcher presents this contribution in three parts. First, the researcher elucidates how FF is related to a firm's EO building on the upper echelons theory where it shows that the firm's output is influenced by the amount of manifestation of the CEO's personality traits and behaviors. Second, the researcher tracks the effect of FF on each dimension of EO (innovativeness, proactiveness, and risk-taking), while considering the dual nature of FF that may be inhibiting or motivating depending on the context of the challenging situation faced by the entrepreneur. Finally, the researcher focuses on the impact of FF on the EO of new businesses that are still in their early stages where 80-90 percent of them face their ultimate failure during their first three years of working (Knott & Posen, 2005).

2. Literature review

2.1 Entrepreneurial Orientation

Entrepreneurial orientation (EO) is one of the most salient concepts in entrepreneurship. As a concept that is derived primarily from the strategic management literature (Lumpkin & Dess, 1996), researchers denoted EO as "strategic posture" because they thought that the overall posture "orientation of the firm" mainly depends

on the direction of the firm's top executives with all other activities following their posture (Basso et al., 2009). Researchers defined EO in different ways, but the most common one is that EO is the firm's decision-making practices, managerial philosophies, and strategic behaviors that are entrepreneurial by nature (Basso et al., 2009).

Until this moment, there are two distinct directions that researchers have adopted for EO. The unitary direction where the EO of the firm is considered part of the organizational attribute to show how the firm is being entrepreneurial through manifesting the three dimensions of innovativeness, risk-taking, and proactiveness. Covin and Slevin (1989) labeled this "a basic unidimensional strategic orientation" because some researchers considered the three dimensions as facets of the same direction (Cogliser et al., 2008). The other direction is the multidimensional one, where its introducers viewed the EO the same way they viewed entrepreneurship itself in the organization. Their meaning of entrepreneurship was the diversity of actions, perspectives, approaches, and the different combinations of internal and external factors that radically change the organization's main strategy. Following on this lead, the multidimensional approach proposed that each of the EO dimensions can exist independently and represent EO without affecting the other dimensions; all combinations of the EO dimensions are valid inside the organizations and the presence of any dimension is a representation of the EO (Rauch, Wiklund, Lumpkin, & Frese, 2009).

Many researchers studied EO to discover its effect on overall organizational performance (Lumpkin & Dess, 1996; Rauch et al., 2009). The literature on EO revealed a prevailing and significantly strong positive relationship between EO and performance. This relationship proved its strength in different contexts and research operationalizations (Krauss, Frese, Friedrich, & Unger, 2005; Rauch et al., 2009). Companies that manifest entrepreneurial behavior achieve a relatively higher performance than those rivals who follow a traditional conservative approach. Hence, the higher the EO in the organization, the better the performance (Rauch et al., 2009). Meanwhile, other researchers expanded their research on EO and its relationship with different variables, not only organizational performance. For example, EO and entrepreneurial intent (Robinson & Stubberud, 2014) or the role of affect in EO (Bernoster, Mukerjee, & Thurik, 2020). Some articles dealt with EO as a holistic strategic posture of the organization and focused on the practices and behavior of the entity overlooking the characteristics of the individuals (Krauss et al., 2005). When researchers focused on the idea of EO as a psychological concept, they focused on the "key players", as introduced by Lumpkin and Dess (1996), which are the business founders, owners, or managers, and how their concepts and ideas are the actual drivers of the EO inside an organization (Krauss et al, 2005).

2.2 Fear of Failure

Fear of failure (FF) is considered the most pre-eminent kind of fear in entrepreneurship (Bosma, Acs, Autio, Coduras, & Levie, 2008). Although FF is considered a significant complex variable (Conroy & Coatsworth, 2004), particularly in the entrepreneurship field (Cacciotti, Hayton, Mitchell, & Giazitzoglu, 2016), it is still developing. Several researchers agreed on its confusing nature and admitted that it is understudied and should gain more focus in entrepreneurship literature (Mitchell & Shepherd, 2011; Cacciotti & Hayton, 2015; Cacciotti et al., 2016). The available research on FF within the entrepreneurship journey examines this variable from the first phase until the entrepreneur starts the business, but then the examination of this variable is disregarded in the stages after that (where there are numerous decisions and situations that engage the entrepreneur's cognition and emotional abilities and stimulate the feeling of FF resulting in a certain behavior (Cacciotti & Hayton, 2014).

The most well-known definition in psychology literature was introduced by Murray (1938) as "A disposition to avoid failure" (p.192). Some studies considered FF as a risk-associated attitude or a reflection of high-risk aversion (Arenius & Minniti, 2005; Bosma et al., 2008). Early studies of FF in entrepreneurship used the latter definition to perceive FF as a reflection of the risk of starting a business and discover the results of the inhibitory effect of FF on the decision to start a business or to be an entrepreneur (Arenius & Minniti, 2005; Cacciotti & Hayton, 2014). Despite the negative connotation that is attached to FF, there is an opposing opinion on its impact (Hayton et al., 2013; Cacciotti & Hayton, 2014; Cacciotti et al., 2016). A new direction of FF has evolved as a result of accumulated and thorough research on its impact on the entrepreneur's behavior; with a new -more collective- definition of FF which is "A temporary cognitive and emotional reaction towards environmental stimuli that are apprehended as threats in achievement contexts" (Cacciotti & Hayton, 2014, p.37). This direction endorses the idea that FF has a positive as well as a negative effect on the entrepreneur's

behavior or decision (e.g. Hayton et al., 2013). Mitchell and Shepherd (2011) were the first to claim the duality of FF's nature when they methodologically revealed that FF's effect depends on the source of fear. The study showed that fear of upsetting important others has an approaching influence of entrepreneurial actions (Hayton et al., 2013).

In entrepreneurship and psychology literature, there are inconsistencies in how researchers implied FF in their studies as a state or a trait. This is due to the different input of definitions and the different implementation of approaches (Cacciotti & Hayton, 2015). Two main common approaches greatly contributed to the FF research: the personological approach and the motivational approach (Hayton et al., 2013). The personological approach deals with FF as an individual trait, a stable disposition that distinguishes one person from another. The application of the achievement motivational theory supports this approach (McClelland et al., 1953) where everyone has a separate inner motive that controls their achievement behavior. On the other hand, studies that followed the motivational approach grounded their implication of FF on the cognitive-motivational-relational theory (the appraisal theory of emotions) and considered FF as a negative emotion (Lazarus & Lazarus, 1991). Alternatively, they considered it as a temporary experience resulting from a change in the environmental cues which threaten the individual and consequently lead to psychological behavior (Hayton et al., 2013; Cacciotti & Hayton, 2015). The studies favored FF to be a state more than a trait because each time the threats (environmental cues) change, the cognitive and emotional appraisals of the individual change and so does the behavior. In fact, it is more beneficial for future research to proceed with FF as a state, not as a trait for endorsing its double nature effect of inhibition and motivation (Cacciotti & Hayton, 2015).

2.3 Relationship between Entrepreneurial Orientation and Fear of Failure

The most recent premise of the upper echelons' theory is that "executives' experiences, values, and personalities greatly influence their interpretations of the situations they face and, in turn, affect their choices" (Hambrick, 2007, p.334). Donald Hambrick and Phyllis Mason (1984) introduced this theory which suggests that the psychological side, represented by the human cognitive base and values, acts as a screen that filters the actual information received in the situation and releases it according to how it was interpreted and perceived by the executive. This eventually reflects on the decision they make. This is in line with what Cacciotti et al. (2016) later discussed: when the individual encounters a situation that triggers his/her FF, he/she passes through a cognitive appraisal process which later affects the strategy he/she follows and the decisions he/she makes. Some similarities are noticed between the theorizing of the upper echelon's theory and the effect of FF on the entrepreneur's decision which eventually influences the firm's direction and performance.

Business founders who embrace an EO in their firms, sustain good performance and avoid failure. Moreover, EO maintains a positive quality of the organization's performance and helps companies overcome the obstacles and hardships within the entrepreneurial process (Gilmore & Carson, 2000). Lumpkin and Dess (1996) claimed that EO is a set of unique behaviors in itself that is moderated by its dimensions (innovativeness, proactiveness, risk-taking, autonomy, and competitive aggressiveness) (as cited in Covin & Lumpkin, 2011). Many studies support this direction of EO for several reasons, the foremost reason is the organization's entrepreneur. An entrepreneur is recognized by his/her actions, not traits, and the same applies to the organization. An organization is recognized as entrepreneurial by the actions of its leaders rather than its organizational-level attributes (Covin & Lumpkin, 2011). For this matter, emotions greatly influence the entrepreneur's behavior (Wolfe & Shepherd, 2015) and are highly related to defining the entrepreneur's decision. Mitchell and Shepherd (2011) argued that the entrepreneur's behavior is the output of personal characteristics such as FF, and the external trigger made by the environment such as a failure-related situation (Kollmann, Stöckmann, & Kensbock, 2017). Therefore, the researcher suggests that the business founder's FF and the firm's EO are related.

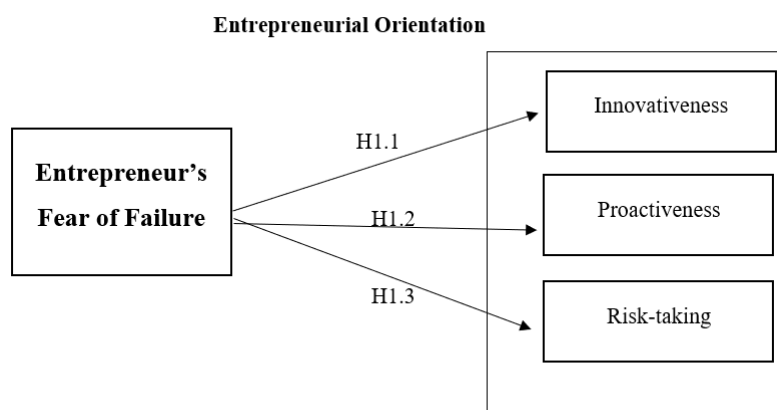
3. Research model

This research suggests that a great deal of the firm's EO (especially small businesses) and its performance depends on the lead individual himself/herself (Altinay & Wang, 2011). Small businesses represent a reflection of the values, behaviors, emotions, and actions of their leaders (Lumpkin & Dess, 1996; Gilmore & Carson, 2000). Some scholars claimed that part of the firm's success depends on the entrepreneur's need to achieve the goals they set (Ogunleye & Osagu, 2014), which explains why the entrepreneur's need for achievement is considered one of the factors that were found to predict the EO of the firm (Kijkasiwat, 2020). Given that one

of the definitions of FF is “ the non-attainment of one’s level of aspiration” (Birney, Burdick, & Teevan (1969, p3), the aim of this research is to emphasize the role of the entrepreneur’s FF during the entrepreneurial journey and test its effect on firm-level innovativeness (H1.1), proactiveness (H1.2), and risk-taking (H1.3).

On an individual level, FF inhibits the employees’ innovativeness inside firms (Kuyatt, 2011; Gülbahar, 2017). Therefore, if the impact of FF was effective on a higher managerial level such as the business owner, it will eventually affect their decisions, the employees, and the firm’s overall innovation, which supports the proposed hypothesis that an entrepreneur’s FF has a negative effect on the firm’s innovativeness (H1.1). Furthermore, the research argued that fear of failure is one of the main reasons for procrastination (Schouwenburg, 1992). Thus, the researcher suggests the entrepreneur’s FF has a negative influence on the entrepreneur’s decisions and consequently, affects the firm’s proactiveness (H1.2). Finally, seeing as FF is a reflection of risk-taking decisions, it inhibits the entrepreneur from taking bold actions as hypothesized in (H1.3). Accordingly, this research aims to investigate an untapped research gap explaining the relationship between the entrepreneur’s FF and the firm’s EO. This is done by following the multidimensional/additive approach of EO proposed by Lumpkin and Dess (1996), which considers each dimension as a representation of the EO’s existence inside the firm. Furthermore, the research mainly focuses on the early stages of operating businesses (from three to five years), where a high business failure rate is witnessed within the context of the COVID-19 pandemic in Egypt. It is worth mentioning that this is the first research to tackle the effect of FF on EO in general. The conceptual framework below (Figure 1) demonstrates these relationships, in addition to the research question and hypotheses of the study.

3.1 Conceptual framework



(Developed by the researcher)

Figure 1: Conceptual framework of the study

3.2 Research questions and hypotheses

RQ1: What is the relationship between the entrepreneur’s fear of failure (FF) and the firm’s entrepreneurial orientation (EO)?

- **H1:** There is a negative relationship between the entrepreneur’s fear of failure and the firm’s entrepreneurial orientation.
- **H1.1:** There is a negative relationship between the entrepreneur’s fear of failure and the firm’s innovativeness.
- **H1.2:** There is negative relationship between the entrepreneur’s fear of failure and the firm’s proactiveness.
- **H1.3:** There is a negative relationship between the entrepreneur’s fear of failure and the firm’s risk-taking.

4. Research methodology

This study applies a quantitative approach in collecting data through the structured questionnaire technique. The target population in this study is entrepreneurs who established and currently run their own early-stage businesses in the Egyptian market. The entrepreneurs were required to be the leading individuals and the decision-makers for their startups, not entrepreneurs who have a supporting role within the startups. This questionnaire consists of four sections. The first two sections are the scales related to the FF and EO respectively. This is followed by the third section, which is the social desirability scale. It was important to add this to the questionnaire to avoid any bias in the answers of the participants. Finally, the fourth section and the last one is about the demographics. This questionnaire forms a total of 54 questions: A 21-item scale of FF developed by Cacciotti et al. (2020), a 9-item scale adopted from Miller (1983) and Covin, and Slevin (1989), and a 10-item scale which is a short version of the Marlowe-Crowne social desirability bias scale, In addition to 14 demographic questions. The questionnaire was distributed mainly online; it was sent on e-platforms such as email and social media platforms such as Instagram, Facebook, and LinkedIn. A major deciding factor was the circumstances of the COVID-19 pandemic. It was highly difficult to reach out to entrepreneurs face-to-face in their offices because most of the offices were closed and the work was shifted to online work. The data collection period lasted three months (from May to August 2021). The researcher sent the questionnaire to more than 250 business founders in addition to the network shares, which is difficult to be tracked and translated to a tangible number. However, the actual number of participants was 152, which constitutes a response rate from approximately 50% to 60%. As this research is new to the Egyptian context, the scales were examined for validity and reliability by using the Statistical Package of Social Science (SPSS V.25). The results showed that both achieved and surpassed the cut-off values. In addition, correlation and regression analyses were administered using SPSS V.25 as well.

5. Results and discussion

The empirical analysis of this study is highly important and relevant the most because it tested the FF of the entrepreneurs during a very hard time when the entrepreneurs went through the COVID-19 experience. The COVID-19 pandemic has threatened the survival of many SMEs in Egypt due to several challenges such as the lockdown, the government's new rules and regulations, the fast change of business models, and the uncertainty of the next phases. This made entrepreneurs and business owners more afraid than before of numerous sources of failure which threaten the existence of their business. Therefore, it is a convenient time to study the relationship of the entrepreneur's FF with the firm's EO and its dimensions. This section's main objective is to provide the findings of this research and discuss it in light of the research presented in the literature review with an aim to provide a vital direction for future research to benefit from what is presented and build on it in the future.

RQ1: What is the relationship between the entrepreneur's fear of failure (FF) and firm's entrepreneurial orientation (EO)?

Separating the EO subcomponents and analyzing them paved the way for presenting the multi-dimensional approach of EO and enabled the researcher to gain a deeper understanding of the relationship between FF and each dimension of innovativeness, proactiveness, and risk-taking in the firm. Following the EO construct adopted by Miller (1986) and Covin and Slevin (1989), the three hypotheses represented the three dimensions that constitute the EO and their relationships with FF underly further details for the study sample in the Egyptian context.

H1.1: There is a negative relationship between FF and innovativeness.

Bernoster et al. (2020) claimed that affect has more influence on innovativeness and risk-taking dimensions than proactiveness dimension. Martins et al. (2018) pointed out that FF has a negative effect on innovativeness. Kuyatt (2011) also argued that FF has a negative impact on employees' ability to innovate inside organizations. Although the results showed that there is a relationship between the entrepreneur's FF and the firm's innovativeness ($P=0.003$ ($P<0.05$) $b= 0.289$), yet it is a positive relationship rather than a negative one as hypothesized. This finding may be due to the following rationale. This study treated FF as a dispositional state, not a stable personality characteristic (Cacciotti & Hayton, 2015) where its effect is short-termed and triggered by some incidents during the period that the entrepreneur leads the startup and makes decisions for operation. Therefore, the state of FF might not affect the innovativeness of the firm at all. In fact, the reason for the positive impact of FF could be related to the fact that FF has a dual effect since FF is

involved with cognitive and emotional appraisals of threats which direct the individual towards different behaviors such as fight, flight, or freeze. Mitchell and Shepherd (2011) argued that individual appraisals of threats and situations can direct the individual towards different behaviors. Hence, the positive impact that FF has on entrepreneurial behavior exists (Hayton et al., 2013; Cacciotti & Hayton, 2014). In fact, Hayton et al. (2013) demonstrated that one of FF elements—upsetting important others—pushed entrepreneurs towards engaging in more entrepreneurial actions. Entrepreneurs who are afraid to fail, work on their ideas very hard and try to innovate, create new models, and offer something new in order to survive another day in the competition. Moreover, in a very competitive entrepreneurial scene, such as the one in Egypt, people at a young age are encouraged to be more innovative and start their independent career paths as indicated by the GEM report (2021b). Being innovative is no longer a choice and if the idea is not innovative enough or the business does not provide creative and enhanced products or services for customers, it will not have a chance for survival. Therefore, as the results show ($P=0.003$ ($P<0.05$) $b=0.289$), the higher FF the founder manifests, the more innovative the firm behaves because the founder is fighting for the firm's survival through its innovation. The next paragraph will discuss the results for both H1.2 & H1.3 since they share the same results and analysis.

H1.2: There is a negative relationship between FF and proactiveness.

H1.3: There is a negative relationship between FF and risk-taking.

This research investigated the relationship between FF and the other two dimensions of EO—proactiveness, and risk-taking—as stated in H1.2 and H1.3. Unlike the first dimension, the result showed no correlation between the FF of the entrepreneur and the firm's two dimensions (proactiveness & risk-taking) with values of $P=0.90$ and 0.183 respectively. This result is aligned with the study of the influence of the entrepreneur's socio-cultural characteristics on the firm's EO. The results showed no influence of the socio-cultural characteristics such as religion and experience on the firm's proactiveness and risk-taking (Altinay & Wang, 2011). However, the results refuted the study of Martins et al. (2018) which showed a negative relationship between FF and both proactiveness and risk-taking. Yet, a comparison of the results is partially inadmissible because the EO construct in the study of Martins et al. (2018) was not on the firm level (which this research provided), it was on the individual level. Hence, the findings indicated that an entrepreneur's FF does not affect the proactiveness of the firm and its ability to take initiatives in the market, nor its direction towards risky calls.

According to this research, the relationship between the entrepreneur's FF and proactiveness & risk-taking dimensions did not exist due to the following possible factors. One reason is that many factors can interfere with the direction of the entrepreneur, such as employees working within the startup, laws, and regulations of the country, among other variables such as the involvement of important others and their opinions. Hence, factors can interfere between the founder's initial direction or decision and the actual output. This means that FF is not the only influencer on the final direction of the firm. Another reason is the nature of the Egyptian culture as an emerging efficiency-driven country. Risk-taking behavior is relatively discouraged (Kreiser & Davis, 2010) and in an Islamic-dominant society, people are more risk-averse as claimed by Farid (2007). Last but not least, a relevant possible reason could be the COVID-19 pandemic. Proactiveness and risk-taking attitudes were not the priority, but innovativeness was.

6. Conclusion

In conclusion, this research shed the light on an ignored yet essential area in entrepreneurship literature: the entrepreneurial FF and its influence on a firm's strategic-level construct: EO. This research also aimed to highlight the FF's new influence of being an emotion or a state and its dual nature (motivator and inhibitor). Part of this study's findings supported this direction showing that FF affects the innovativeness of the firm. This indicated that the more FF the entrepreneurs in Egypt have, the more they invest in developing innovative and creative ideas, products, and services to keep their businesses operating during the COVID-19 pandemic. Following an EO multidimensional approach, the findings highlight the presence of a positive relationship between FF and EO. Yet, the findings also showed that the entrepreneurs' FF does not affect either the proactiveness or the risk-taking attitudes of the firm. This is justified by the overall risk-taking attitude in the Egyptian culture and the effect of the COVID-19 pandemic situation while the study was conducted.

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