This paper explores the role of regulatory focus in the social capital aspects of the reentry decision. Whereas prior research has focused on the evolution of social capital through the lifespan of a venture, this paper focuses on self-regulated shifts in social capital that occur during the afterlife of a failed venture. Building upon social capital and regulatory focus theories, the main proposition in this paper is that failure triggers self-reflective and reactive cognitive processes that motivate failed entrepreneurs to actively manage their social capital portfolio. Promotion focused entrepreneurial leaders are proposed to more likely to pursue structural shifts in social capital. Prevention focused entrepreneurial leaders are proposed to be more likely to patch and preserve the social capital embedded in failed ventures. The paper concludes that the lessons learned from prior failure experiences not only shape entrepreneurial intentions for social capital exchanges in future ventures but also may provide insight into heterogeneous means for value maximizing combinations of social assets and liabilities that are a regulatory fit to the outcomes that entrepreneurs expect.

**Introduction**

*My network in my next venture will be connected to me...*

All of the actions or non-actions of entrepreneurs are in one form or another embedded in a concrete, ongoing system of social relationships through which entrepreneurs access resources that may or may not be attainable through traditional market mechanisms (Granovetter, 1985). Yet, there are recognized boundaries to the control that entrepreneurs have over the social capital structure of their ventures; such as socially constructed cultural stigmas and societal norms (Hoang & Antoncic, 2003; Cardon, Stevens & Potter, 2009). Entrepreneurs also may be abandoned by their social relationships or externally depleted of social capital after a failure event occurs (Sutton & Callahan, 1987). In addition, other external factors may influence the extent to which entrepreneurs must rely upon social capital out of necessity, i.e., inability to obtain financing, market barriers (Hite & Hesterly, 2001). These external
boundaries have stimulated an interesting stream of social capital research in the literature.

In the present paper, the research focus is not on external boundary conditions per se but rather on the expected outcomes for social capital that arise from the self-regulated cognition of failed entrepreneurs. The importance of this research question is highlighted by the general understanding among scholars that the structure of entrepreneurial networks will not remain static (Hite, 2005; Stam, Audretsch & Meijaard, 2008). There is a gap in the literature that arises from the lack of scholarly attention to the relationships between the lessons from a shocking event such as the failure of an entrepreneurial venture and the implications for the questioning, reallocation and, in some cases, even distrust of the social capital embedded in entrepreneurial networks. To address this gap, this paper explores the influence of regulatory focus on the social capital aspect of the reentry decisions of failed entrepreneurs.

The main proposition that supports the presented conceptual model is that the lessons from failure motivate entrepreneurs to become more proactive in the management of their social capital portfolio. This paper further proposes that there is no prescribed configuration of the means for extracting social capital from entrepreneurial networks that ensures maximum utility. Rather, entrepreneurs should be encouraged to use heterogeneous means to extract social capital from their networks that fit their activated prevention focused or promotion focused regulatory state. To provide context, exemplary scripts from entrepreneurs in different stages of the failure-reentry process (Yin, 1984) are collected and are weaved into the theoretical discussion in the paper.
The contributions of this paper are as follows. First, contributions are made to emerging social capital research streams on the dynamism (Kilduff, Tsai & Hanke, 2006), embeddedness (Oh, Labianca & Chung, 2006) and evolution (Hite, 2005) of the social capital structure of entrepreneurial firms. Second, contributions are also made to the emerging research stream linking the regulatory focus of entrepreneurs to outcomes of the entrepreneurial process (Bryant, 2008; Hmieleski & Baron, 2008; Brockner, Higgins & Low, 2004). Third, the propositions in this paper have practical applications for entrepreneurs and their advisors. Increased awareness of the cognitive processes involved in the evolution of social capital enables entrepreneurs to maximize the value of the social capital they extract from their entrepreneurial networks such that they may gain more influence over the pursued outcomes of their ventures.

The paper proceeds with a discussion of the theoretical framework and the first three propositions in our conceptual model. The next two sections of the paper discuss the methodology used to collect scripts from the informant entrepreneurs and then introduce the last proposition in our conceptual model. The insights from the informant scripts provide qualitative depth to propositions in our model. Limitations and opportunities for future research are discussed in the next section, followed by the conclusion.

**Social Capital Theory**

*Personal relationships are gold...*

Social capital theory has received widespread application in the entrepreneurship literature. In this paper, ‘social capital’ is defined as the bundle of resources that entrepreneurs acquire or share through the network relationships and prior social interactions (Bourdieu, 1986; 1992). At the core of social capital, are expected
outcomes from mutual trust, norms, obligations and sanctions that are embedded in the relationships that motivate entrepreneurs and other persons in their networks to share resources (Jacobs, 1965; Hite, 2005; Starr & Macmillan, 1990). Key approaches to building social capital are suggested in the literature, such as: (1) sharing information; (2) solving and receiving help with problems; (3) giving and receiving favors; (4) creating opportunities for people to demonstrate their skills and competence. Each approach is characterized by mutual decisions about the formally of social debts that are created and the costs that are involved to maintain relationships (Starr & Macmillan, 1990).

A number of insightful studies in the literature explore the evolution of network relationships that are embedded in the start-up, infant and established stages of entrepreneurial ventures (Hite, 2005; Smith & Lohrke, 2008; Dubini & Aldrich, 1991; Katz & Gartner, 1988). Hite (2005), for example, presents a mapping of the social relationships that become embedded in entrepreneurial ventures. Smith and Lohrke (2008) then expand upon this mapping to demonstrate that relational aspects of ‘interpersonal trust,’ which is centric to social capital also evolve with the venture. Yet, while this body of literature provides insights into social capital throughout the stages of an existing venture; the shifts in social capital that are triggered by a shocking event such as the failure of a venture have received little scholarly attention in the literature, if any.

Lessons for Failed Entrepreneurs about Social Capital

*I want to say I am wiser. I think that is the difference...*

Mitchell, Busenitz, Lant, McDougall, Morse, & Smith (2002:97) define entrepreneurial cognition as “the knowledge structures that people use to make
assessments, judgment or decisions involving opportunity evaluation and venture creation and growth.” What we know about entrepreneurial cognition is that entrepreneurs learn from their real experiences (Sarasvathy, 2001) and that this learning process occurs regardless of whether the outcome of a venture is a success or a failure (Minniti & Bygrave, 2001). ‘Entrepreneurial failure’ takes on different meanings throughout the entrepreneurship literature. In this paper, entrepreneurial failure is defined as a “business discontinuance, which could be due to various reasons including legal problems, partnership dispute, death or simply a shift in interest to carry on with the same business” (Singh, Corner & Pavlovich, 2007:332). When a failure occurs, it is natural for persons to reflect on and react to perceived contributory factors. While this process of reflection and reaction can be dispiriting for an entrepreneur (Shepherd, 2003); there are beneficial outcomes for those entrepreneurs who learn lessons that increase entrepreneurial competency (Westhead & Wright, 1998; Minniti & Bygrave, 2001).

It is argued in this paper that the lessons learned from prior failure experiences not only shape entrepreneurial intentions for social capital in future ventures but also may provide insight into heterogeneous means for successful combinations of social assets in entrepreneurial networks. The perceptions of entrepreneurs about the relational basis for social capital exchanges do not remain static (Kilduff, Tsai & Hanke, 2006). Further, entrepreneurs use their subjective perceptions of the events that contributed to their failure to revise assumptions about the value of their social capital (Wiklund & Shepherd, 2008; Politis, 2008). Therefore, regardless of the “actual” reason for failure, it is the subjective perception of failure that influences the social capital aspects of the reentry decision (Wiklund & Shepherd, 2008). Such cognitive processes are human in nature and not unique to entrepreneurs.
Yet, unique stakes do arise for entrepreneurs if upon reflection, they revise their assumptions about the type and level of social capital exchanges that should be based on cognitive (economic) versus affect (goodwill) based trust (McAllister, 1995; Jeffries & Reed, 2000) or if there was a perceived defection or betrayal in a social capital exchange (Tomlinson & Mayer, 2009; Granovetter, 1985). The data collected from the informant Bill, for example, suggests that social capital exchanges based on cognitive or economic trust will be the dominant means of extracting entrepreneurial resources from his network relationships. Bill states: I would build my own network of people I could depend on to get things done. I would want people who could get me to the next level and make my business successful. The first proposition states:

**Proposition 1:** There is an increased likelihood that failed entrepreneurs will be highly motivated to actively manage their social capital portfolio.

**Regulatory Focus Theory**

The active management of social capital by entrepreneurs may or may not result in their reduced reliance on social capital exchanges in future ventures. To understand the heterogeneity in the choices that entrepreneurs make about social capital that is pursued following a failed venture, consideration should be given to the focus of their self-regulated reflections and reactions to episodic events leading up venture failure.

Regulatory focus is an important aspect of self-regulation. Regulatory focus influences hindsight bias (cf. Cassar & Craig, 2009; Hertwig, Fanselow & Hoffrage, 2003) which in turn activates the promotion or prevention focused inclinations of failed entrepreneurs towards future entrepreneurial activity (Crowe & Higgins, 1997; cf. Bryant, 2008). Where there are more than one correct alternative to complete a
task, individuals in a promotion focus (ideal-self) generate more distinct alternatives and individuals in a prevention focus (ought-self) are more repetitive in the alternatives they consider (Crowe & Higgins, 1997).

In the context of social capital, where promotion focus inclinations are activated, failed entrepreneurs may be motivated to move toward desired end states for their new venture and take actions that are focused on attaining gains in their social capital. Accordingly, promotion focus should encourage greater shifts away from the level and type of social capital exchanges that supported the failed venture. Proposition two states:

**Proposition 2:** Reentry decisions focused on shifting away from the social capital of failed ventures are more likely to occur when the promotion focused inclinations of the entrepreneurs are activated.

If prevention focused inclinations of failed entrepreneurs are activated, on the other hand, there may be less attention to desired end states and more focus on avoiding losses in social capital. This may encourage less shifts and more repetitive reliance on the level and type of social capital exchanges that supported the failed venture. Proposition three states:

**Proposition 3:** Reentry decisions focused on repetitive reliance on the social capital of failed ventures are more likely to occur when the prevention focused inclinations of the entrepreneurs are activated.

The proposed relationships between regulatory focus and the social capital shifts discussed in Propositions 1 and 3 are modeled in Figure 1. Note also, that there is heterogeneity in the regulated cognition of failed entrepreneurs that are triggered in the context of a failed venture. This is because promotion and prevention foci are
uncorrelated states that can be activated by diverse circumstances surrounding a failed venture (Higgins, 2000; cf Bryant, 2008).

Methodology for Informant Scripts

Given the limited research on the relationship between entrepreneurial failure and the lessons learned about social capital upon reentry, exemplary scripts from three informant entrepreneurs were collected through 1 hour semi-structured life history interviews and participant observations. The cases were selected to provide insight into the cognitive process at different stages of the failure and reentry process through pattern matching (Yin, 1984). Wilfred experienced a failure within the 6 months prior to his interview and is in the grief recovery process. Bill experienced a failure within the 3 years prior to his interview and is actively seeking a business partner for a new venture. Benjamin experienced multiple failures in the past 5 years and is currently engaged in two entrepreneurial ventures. Table 1 contains a description of entrepreneurial experience of each respondent.

Gilmore, Carson and O’Donnell (2004) suggest that entrepreneurs should be observed in the context of their business environments. Accordingly, the semi-structured interviews were conducted in natural settings selected by the entrepreneurs. Wilfred was interviewed in a neighborhood diner. Bill was interviewed at his home office. Benjamin was interviewed after hours at his place of business. Each entrepreneur was allowed to respond in story form with minimal interjection to a semi-structured interview protocol. This format provided the informant entrepreneurs with the freedom to share their thoughts and express their beliefs about personal and interpersonal entrepreneurial experiences surrounding their failures. The tapes of the
semi-structured interviews were transcribed within one day of each interview. The field notes from the participant shadow and observation of Benjamin were also typed within one day of the completion of fieldwork. The transcribed data were inspected and reviewed for accuracy by the researcher and peer debriefed. Upon completion of the peer debriefing process, the data collected was coded into a matrix of scripts that exposed common themes and phenomena that support the theoretical framework presented in this paper. Although the stories of the entrepreneurs revealed many positive and negative lessons from their prior experiences, the focus of this paper is on the lessons learned from the experience of failure and the social capital aspects of the reentry decision.

Pathway to Social Capital Value in Entrepreneurial Ventures

An entrepreneur needs to have a support system to achieve their goals...

Because of the heterogeneity in entrepreneurial behaviors, caution should be taken in developing hard and fast rules about what mix of social capital assets and liabilities are optimal for entrepreneurs. There are different means to achieve value from social capital. For instance, Higgins, Roney, Crowe and Hymes (1994) conducted a study of differences in identified strategies for building friendships, i.e., an aspect of social capital. The researchers found that the promotion focused participants emphasized building supportive relationships and that the prevention focused participants emphasized not losing contact with existing relationships.

The informants for this paper also identified different means for extracting value from their social capital. The exploratory data collected from informant interviews
suggest that Bill and Benjamin are promotion focused in the social capital aspects of the reentry decision; while Wilfred is more prevention focused. The scripts below draw attention to the heterogeneity in their regulatory focus and their means for extracting social capital from their networks.

**Bill:** As an entrepreneur, you need a temperament for change because you can’t always stay on the same path. I think this time I would probably build my own network pretty much and also expand that network to include different people.

**Benjamin:** An entrepreneur has the mind of a daredevil. A daredevil just does. Being serious about what I do makes people feel that they can help me because they trust that I will succeed. I do not want a partner.

**Wilfred:** I think most deals get done with simple networking. Personal Relationships are gold. I would probably go through a very intense process of interviewing people. I think you have to be more selective.

Whether the decisions of Bill, Wilfred and Benjamin will maximize the value of their social capital in future ventures is argued in this paper to depend upon whether there is a regulatory fit to their goals for social capital assets and liabilities in future ventures, (Higgins, 2000). In other words, regulatory fit increases the value of social capital to entrepreneurs, regardless of whether their venture activities are successful (cf. Higgins, 2000). Some scholars even suggest that the activation of both promotion and prevention focus states throughout the entrepreneurial process is an antecedent to successful venture outcomes (Brockner, Higgins & Low, 2004). The last proposition is next stated.

**Proposition 4:** Entrepreneurs who combine their social capital assets and liabilities using means that fit their regulatory focus are more likely to assign a higher value to their social capital portfolio.

**Limitations and Research Opportunities**

Insights into the regulatory focus of failed entrepreneurs can provide scholars and practitioners with a better understanding of the expected future outcomes for social
capital. The present paper, however, is suggestive of entrepreneurs reevaluating their social capital assets on a case by case basis. Exploratory data from the informant scripts suggest that failed entrepreneurs may reevaluate the strength and weaknesses of social assets and restructure their social capital exchanges on both an individual and categorical level. The informant, Bill, for example stated: *My partner was my cousin and I found that as a barrier so I don’t think I would trust my family when it comes to doing business.* That is, Bill attributed the trust violation by a member (i.e., the cousin) of a social category in his network to all the members (i.e., the family) of that social category and may choose to forego reliance on their resources in future ventures. Social and self categorization (Tajfel & Turner, 1979) are the primary psychological mechanisms through which group membership influences trust development through stereotyping and other similar behaviors (Williams, 2001). Further inquiry into the influence of these mechanisms on the social capital aspects of the reentry decision should prove to be insightful.

Generally, outcome expectancies of entrepreneurs are composed of the integration of beliefs about the efficacy and control of self, others and chance (Monsen & Urbig, 2009). Accordingly, the perceived self-efficacy of failed entrepreneurs may provide additional insights into influence of self-regulation on social capital aspects of the reentry decision. While the regulatory state(s) activated by a failure event have been shown to uncorrelated to each other, the experimental results of Crowe & Higgins (1997) do suggest a correlation between self-efficacy and regulatory focus. In particular, persons with high perceived self-efficacy were found to have a tendency to be promotion focused and persons with low perceived self-efficacy were found to have a tendency to be prevention focused (Crowe & Higgins, 1997). Further research utilizing established scales would be insightful on the cross-over relationships, i.e.,
what lessons from failure motivate entrepreneurs with high perceived self-efficacy to be prevention focused in their social capital and vice versa. The informant, Benjamin, for example, exhibited high self-efficacy during his interview. Benjamin, stated: “If there is an opportunity to make some money, as an entrepreneur, you have the knowledge to do it. Being an entrepreneur is like riding a bike.” Benjamin, however, was cautious about taking risks to gain in social capital. In one instance, Benjamin even stated: “I don’t want a business partner.”

Conclusion

Entrepreneurship scholars have called for further theory-based research on entrepreneurial cognition with the aim of explaining more of the heterogeneity in entrepreneurial behavior (Shepherd & Krueger, 2002). This paper answers this call with a conceptual model of self regulated cognitive processes that motivate failed entrepreneurs to shift or maintain the structure of the social capital embedded in the failed venture. In short, it is suggested that the lessons learned from prior failure experiences shape entrepreneurial intentions for social capital in future ventures, as well as, provide entrepreneurs with the insight of heterogeneous means to combine their social assets and liabilities that promote the successful outcome of future venture activities.

References


**Figure 1: Regulatory Focus Influence on Social Capital Shifts**

**Table 1: Descriptions of the Informant Entrepreneurs**

<table>
<thead>
<tr>
<th>Case</th>
<th>Age</th>
<th>Venture</th>
<th>Life</th>
<th>Type Failure</th>
<th>Current Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wilfred</td>
<td>26</td>
<td>Real estate partnership</td>
<td>3 Years</td>
<td>Legal Problems/Partner Dispute</td>
<td>Grief Recovery</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Partnership dissolved 1 year prior to study</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Started graduate school 6 months prior to study</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recording Studio</td>
<td>3 Years</td>
<td>Partner Dispute/Liquidity</td>
<td>Pursuing a New Venture</td>
</tr>
<tr>
<td></td>
<td>40</td>
<td></td>
<td></td>
<td></td>
<td>- LLC dissolved 6 yrs ago</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Street Vendor</td>
<td></td>
<td></td>
<td>- Full-time accountant</td>
</tr>
<tr>
<td>Benjamin</td>
<td>Early 50s</td>
<td>Leather Store Import/Export Street Vendor</td>
<td>3-5 years for each venture</td>
<td>Shift in interest from each venture.</td>
<td>Completed Re-entry</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Multiple ventures</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Real estate developer</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• ABC Dance Director</td>
</tr>
</tbody>
</table>