



Premature Entrepreneurial Exit: Exploring the Role of Goal Setting Bias

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Abstract: The stimulation of entrepreneurship and the support to venture creation is widely introduced in governmental policy plans. Despite the good intentions, the failure rate of start-ups remains the same. Research on entrepreneurial exit and the design of effective prevention measures seem to be at a dead end. New perspectives might generate an impetus to this field. In this paper the goal setting theory is explored. The findings indicate that there are designations that a bias in goal setting effect premature entrepreneurial exit. In this paper important recommendations for further research are given.

Keywords: Entrepreneurial exit, Goal Setting

1 Introduction

1.1 Perspective of the research

Entrepreneurship is become an important topic in both, research and society [1]. On European, national and local level, government support entrepreneurship and entrepreneurship education [2]. Nevertheless, neither the number of successful entrepreneurs increase nor the failure rates of entrepreneurial support systems decrease [3]. Therefore it seems important that the causes of entrepreneurial failure are identified and that support systems need to be more effective. This research is a side-step from the

authors' initial PhD project as it yearns for additional research perspectives. After a discussion on a conference with other scholars, some ideas came up which could be fruitful for further research. In the discussed paper [4] it was asked to help with different perspectives on the research methodology. As the theory of *goal setting* [5] was purposed as a feasible option, the author started this side-step research to explore the possibilities of this approach.

1.2 Aim of the research

The aim of the initial research is to design prevention measures for premature entrepreneurial exit in support systems for starting, or to start entrepreneurs. In a first practical step, the causes should be identified. For this purpose, next to a systematic literature review, failed entrepreneurs were interviewed. Also some prevention measures were identified [6]. With these results, in the next stage of the research, on a larger scale entrepreneurs with premature entrepreneurial exit experiences will be researched. In an attempt to collect data from as many scientific perspectives as useful, other scholars were asked to suggest meaningful perspectives. Mainly researchers with a consultancy background felt that the achieved goals of 'entrepreneurs in trouble' could be different from those who survive. Therefore the aim of this side-step research is binary: to explore the possibilities for data acquisition and to explore the application of the concept of 'goal setting' to the initial research project. When both aims seem to be achievable, the concept of goal setting will be added to the initial research project.

2 Theoretical background

In this paragraph first a summarized theoretical background will be given on the perspective used on entrepreneurship, entrepreneurial exit and premature entrepreneurial exit. Latest results on the identification of causes of premature entrepreneurial exit are given at the end of the first subparagraph. In the second subparagraph the actual insights of the theory of goal setting is discussed.

2.1 Entrepreneurial exit

An anchor for fostering entrepreneurship can be found in the person of the entrepreneur [7], the enterprise [8] and in the process of entrepreneurship [9]. From multiple statistics of entrepreneurial exit, in the first five years, about half of the started enterprises does not survive [10]. Two third of the entrepreneurs consider this event as a failure what could have been prevent from [11]. Recent studies of entrepreneurial exit determine exit routes of the entrepreneurial process based on the 'sale' or 'liquidation' with high or low performance [12]. Other exit routes based on resources (e.g. capital assets, human capital) and goals for organization and growth [13] or personal traits [14]. Wennberg & DeTienne [15] identified three mediated factors in the dynamic of exit, based on the type of the firm. Fragmented among scholars three groups of causes are mentioned: the

entrepreneur [10], his / her new venture and his / her organizational environment [16]. Based on a systematic literature review and case studies of 24 entrepreneurs, an overview is generated on the concepts of causes as shown in figure 1 [4]. It can be seen

Classification	Identified causes		
	Concept	Theory	Practice (out of 24 cases)
Poor management	lack of financial knowledge	X	4
	no partners involved	X	5
	no experience in the branches ^(*)		4
	lack of financial resources ^(*)		6
	no social acceptance ^(*)		2
Poor concept	no clear focus on added value	X	8
	no paying customer group identified	X	2
	poor market information ^(*)		5
	not enough sales ^(*)		11
Personal traits	taken to much risk (overconfidence)	X	5
	hesitating too much on decisions	X	5
Other causes	found other job		3
	sold with profit		3
	bankruptcy	X	8
(*) not identified in theory but grouped within the classification			

Figure 1

The concepts of premature entrepreneurial exit

as notable that there is not an entire overlap between theory and practice. This ascertainment supports the application of a different perspective. The above cited studies lack an integrative approach.

From the literature three levels of exit can be determined, from where the subject can be studied: environmental level, organizational level and personal level. Viewing the aforementioned view of exit together, it appears that the external factor inherent to the environmental constraints (environmental level), lack of resources and competences within the new venture (firm level) and the absence of a deep entrepreneur's commitment (individual level) may explain the decision of entrepreneurial exit [17]. As the environmental level cannot be influenced by a small economic entity as a start-up, the study to the causes of premature entrepreneurial exit is focussed on the firm and personal level. The attributes of the cases studied were processed with the computer program SPSS (version 17) where classes were made. From these classes, the personal and firm level of causes was isolated, as is shown in figure 2 below. These results show a framework, from where prevention measures could be made when there was no absence of the entrepreneurs' cognition [4]. For this reason a study started where cognitive maps of failed entrepreneurs will be made. Not reported preliminary results

and feedback from an international conference suggest that the theory of *goal setting* [5] could shed more light on the dynamics of starting and (premature) exiting of entrepreneurship. In the subparagraph below, the theoretical background of goal setting is given.

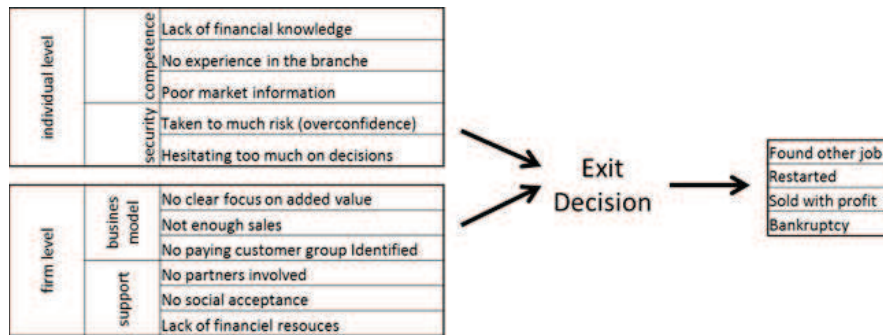


Figure 2

Personal and firm level causes of premature entrepreneurial exit

2.2 Goal setting

The work of psychologist Edwin Locke from the University of Maryland at College Park, is broadly accepted by scholars as fundamental [5]. Together with Gary Latham he published his ground-breaking work in their book “A Theory of Goal Setting and Task Performance” where it is explained that goal setting theory predicts that people will channel effort toward accomplishing their goals, which will in turn affect performance [18]. Setting a goal should include setting a structure that directs actions and behaviors which improve the unsatisfactory performance. Setting a goal will change a person's behavior in order to work towards achieving the set goal. Goal setting research is focused on the motivation and task performance of employees. It builds on the concept that goals must have specific attributes to get and keep employees motivated. Though the goal setting theory is sparingly applied in the field of entrepreneurial exit. In relation to the entrepreneurial cognition and mind set, goal setting has been studied and acknowledged as one of the many personal traits of an entrepreneur [19]. Predominantly in relation to venture growth [20]. The basic principle of the goal setting theory is that motivational goals need to have four dimensions [18]:

- *Acceptance & commitment.* An individual must commit themselves to the goal set and fully accept it. Goal importance and Self Efficacy are improving this dimension.
- *Goal specificity.* Goals must be measurable, so an external referent is created. It must be very clear and explicit to all. Goals have to be conceivable, believable and achievable.

- *Goal difficulty.* For a high performance, the difficulty of a goal must set high and challenging for the one achieving. Conversely too high set goals reduce the achievability.
- *Feedback on progress.* Feedback may gauge the progress and indicate possible weaknesses in an early stage. It increases the achievability and raise motivation.

Latham [21] argued that goal setting mechanisms affect performance by increasing motivation to reach set goals. He proposed the four mechanisms below:

- *Direct Attention.* Goals direct attention to behaviors that will accomplish the goal and away from the behaviors that will not achieve the goal.
- *Energizing.* Inspiration to put out a certain amount of effort based upon the difficulty of achieving one's goal.
- *Task Persistence.* The amount of time spent on the behavior to achieve a goal.
- *Effective Strategies.* In wanting to achieve a goal the individual seeks out different ways to achieve it.

In this research paper the mechanisms and the dimensions of goal setting are used. A well-known spin-off of the goal setting theory is the SMART-criteria for effective goal setting, as proposed by Kenneth Blanchard and Spencer Johnson. Because SMART is a simplification of the goal setting theory, for this research this concept is not used in the research. Beside the benefits of the goal setting theory, there are some limitations in respect to this research, which need to be addressed. First there might be a conflict of interest between the personal and organizational goals. Second there is the problem that individuals are more tempted to take risky actions in pursuit of their goals, which could potentially lead to failure rather than success.[18].

3 Methodology

For this research three semi structured interviews were held with nascent entrepreneurs; two are failed and not restarted and one has not failed. Found on previous research as described in the theoretical paragraph above, entrepreneurs should be interviewed with a clear cause of failure: one on personal level and one with a clear cause on firm level. The entrepreneurs were not interviewed before on this topic. Preliminary information on the failure cause was provided by so called privileged witnesses (e.g. friends, accountants or family). The third, not failed, entrepreneur started in about the same timeframe as the other two failed entrepreneurs. The interview protocol was designed for the first interview of a cognitive mapping process. For this research the protocol was added with questions about the goals set by the entrepreneur when starting and closing (maintaining) the venture. The interviews were recorded and transcriptions were made. Also notes were made during the interview regarding non-verbal signs and

summarization of the answers by the interviewee. The interview results then were confronted with the dimensions and the mechanisms of the goal setting theory. For this purpose the transcriptions and notes were searched manually on pointers on the dimensions or mechanisms of goal setting. The findings and conclusions are shown in the paragraphs below.

4 Findings

In this paragraph the findings are presented. The interviews were held in the Dutch language, as it is the native language of the entrepreneurs. The interview with the failed entrepreneurs was about one hour, the non-failed 40 minutes (no questions on exit were asked). The age when started was mid thirty of all entrepreneurs. All cases are anonymised and names do not refer to the natural person. During the interview it appeared difficult to address the exit element of the entrepreneurial journey of the interviewees. They expressed elements of inconvenience when talking about the time period of exit. Contrary during the time period of starting, verbal and non-verbal clear signs of positive emotions were registered. As the entrepreneurs were asked to the goals they set when starting the firm, different answers came up. The answers were analysed among the dimensions and mechanisms of goal setting. From the dimensions all three entrepreneurs have full commitment to the goal set, did not expect that the goal was so difficult to achieve and had only a sort of financial feedback system on the goals. In respect to the specificity, the not failed entrepreneurs had set a measurable goal, the failed ones did not. When analysing the mechanisms, the Direct Attention, Energizing and Task Persistence are positive with all three entrepreneurs. It needs to be remarked that it was difficult to address if the Direct Attention and Task Persistence was based on the '*right*' tasks; tasks who contribute to survive in entrepreneurship. The firm-failed entrepreneur had only one strategy. The personal-failed entrepreneur had an exit strategy from the start. The not-failed entrepreneur showed flexibility in the strategy to aim his goals. In figure 3 below, the findings are summarized.

	Entrepreneur		
	Failed "personal"	Failed "firm"	Not failed
Case name	Frank	Gerard	Rene
Goals indicated	Having own firm Income replacement Be independent Take responsibility	Development Personal growth Freedom to make decisions	Established firm ± 10 employees Supply flex. service Build-up capital Satisfaction
<i>Dimension</i>			
Commitment	Fully accepted	Fully accepted	Fully accepted
Specificity	No measurable goals set	No measurable goals set	Clear goal set, measurable
Difficulty	Not expected to be so difficult.	Not expected to be so difficult.	Not expected to be so difficult.
Feedback	Only financial feedback	Only financial feedback	Only financial feedback
<i>Mechanism</i>			
Direct Attention	Positive	Positive	Positive
Energizing	Positive	Positive	Positive
Task Persistence	Positive	Positive	Positive
Strategies	Starting and Exit strategy from the start	One strategy	Flexible in adjusting strategy

Figure 3
Summary of the findings

5 Conclusions and recommendations

For this side-step research is support by a modest dataset, preliminary conclusions can be made on both of the aims of this research. To the first aim, the exploration of data acquisition, it can be concluded that the transcription of semi structured interviews can be used to acquire data. Mechanisms as Direct Attention and Task Persistence demonstrated a possible bias. It could not clearly be distinguished what if the task discussed, contribute to entrepreneurial survival. Sequel interviews, as is habitually to techniques as cognitive mapping, are recommended. To the second aim of this research, it is demonstrated that the goal setting concept indicate differences in the cases presented. Only the dimension Specificity, one of the eight parameters, shows a clear difference between 'failed' and 'not failed'. A distinction between 'failed-person' and 'failed-firm' could not be made. From the data it cannot conclusively be declared that there is causality with premature entrepreneurial failure. For this reason it is recommended to research a larger sample with both groups, 'failed' and 'not-failed' entrepreneurs. Taken into account the recommendation, the goal setting theory can have a positive contribution to the initial research project. A specificity bias in goal setting of nascent entrepreneurs can be suggested as an indicator of premature entrepreneurial exit.

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