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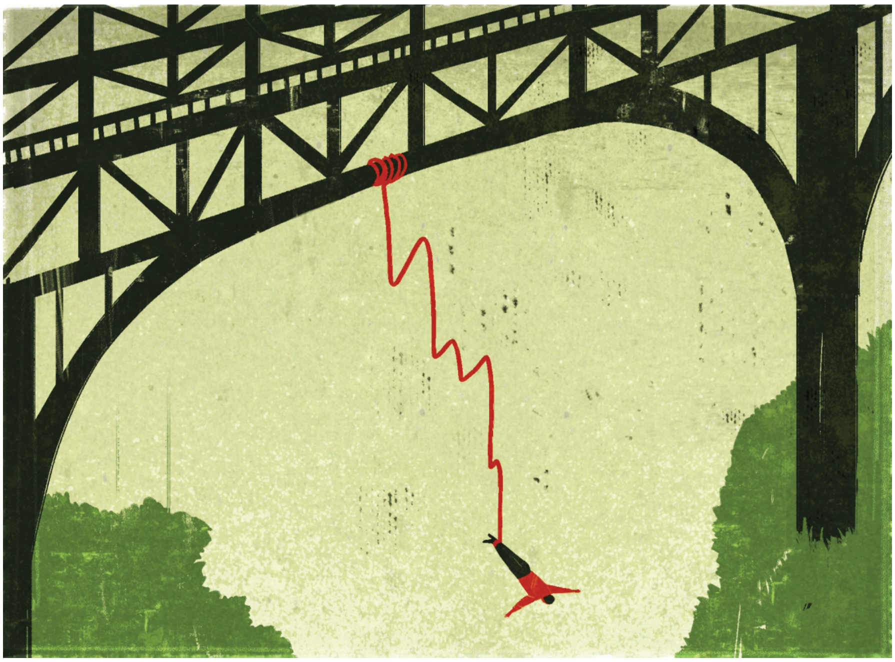
Entrepreneurs and The Cult of Failure



Policy makers from the government of Singapore to the European Union have advocated "embracing failure" to encourage entrepreneurship. During this year's launch of the White House initiative Startup America, one attendee made an impassioned plea that the United States follow this advice. After all, wasn't it the fearlessness of America's great pioneers—their willingness to stumble during their quest—that led them to succeed against all odds?

Well-intentioned though they may be, these attempts to celebrate failure are misguided. Fear should not be confused with anxiety—and celebrating failure seems aimed at reducing anxiety.

Anxiety, Freud is said to have explained, is when you irrationally react to a simple stick as if it were a dangerous snake. Fear is when you react to a dangerous snake as if it were, well, dangerous. Anxiety is dysfunctional, but fear can be good: It helps protect us from things that are dangerous—such as risk taking. Entrepreneurs, in my experience, develop a healthy fear of what can go wrong. They just don't let it paralyze them.

"Embracing failure" to encourage entrepreneurship is misguided. Failure should not be celebrated.

Here are three ideas to help policy makers calibrate the fear of failure to encourage entrepreneurship without suggesting that failure be vaunted.

Accept that failure is a natural part of doing business. In "hyperentrepreneurial" countries such as Israel, Taiwan, and Iceland, early business failures are common. And the famous J-curve of returns is ideology among venture capitalists everywhere: Failures come early; successes take time. Early failures are important because they generate systemic learning about where opportunities are (and are not) and how to address them, and they quickly free up people, capital, and ideas for more-promising projects. Rapid failure functions like the draft of a chimney: The fast exit of failures sucks in new entrants. Yet many policy makers who encourage entrepreneurship as a strategy for economic development treat low failure rates as a sign that their policies are working. They should be looking for lots successes *and* failures, although the former should, of course, outweigh the latter, in sheer numbers, in impact, or in both.

Remove structural obstacles to reduce the objective risks of a failed venture. Many countries, even those with advanced economies, inadvertently discourage entrepreneurship by punishing bankruptcy: They prevent failed entrepreneurs from conducting future business or even opening bank accounts, and in some cases treat bankruptcy as a crime. Laws that increase the costs of failure stifle engagement from new players, much as a blocked chimney prevents oxygen from feeding the flames. Labor laws are another case in point: Research has shown that eliminating those that make it hard for employers to fire people and instead providing support for laid-off workers makes entrepreneurs much more willing to hire for their start-ups, knowing they can reduce their ranks if necessary.

Turn failure into fodder. Contrary to myth, entrepreneurs are not reckless gamblers. True, risky business is an intrinsic aspect of pushing the innovation envelope. But it's important to train entrepreneurs to fail small, fast, and cheaply. Inexpensive failures don't make headlines—and don't cause embarrassment or shame. Policy makers can support the training of entrepreneurs in risk-mitigation strategies and skills.

If you follow this advice, you won't have to break out the champagne when entrepreneurs fail. Treating failure as a normal aspect of venturing into new business, and developing the right perspective on its value, will help fix the fear of failure without going overboard with festivities in its name.

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