

# Chapter 5

## Entrepreneurial Re-Entry Post an Economic Crisis

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### ABSTRACT

*In this chapter, insights from prospect theory and institutional theory are used to explore how societal-level well-being and inter-personal trust interplay with political stability of the country to facilitate re-entry of entrepreneurs who have exited because of an economic crisis. The conceptual model presented suggests that informal institutional conditions of societal well-being, inter-personal trust, and their interplay with political stability of the country are key to subsequent entrepreneurial intentions by entrepreneurs who have exited unfavourably during an economic crisis. The suggestions of the model are used to discuss implications related to the present COVID-19 pandemic and survival of entrepreneurship after the pandemic.*

### INTRODUCTION

Entrepreneurs exiting their businesses is an integral part of the entrepreneurship process (DeTienne, 2010). Entrepreneurs who have had prior exit experience, favourable or unfavourable (e.g., during or after an economic crisis) are likely to have intentions for subsequent entrepreneurship (Hessels et al., 2011). Individual entrepreneurs bouncing back from failed experiences are considered resilient (Hayward et al., 2010). External conditions of economic downturns and financial crises adversely affect small entrepreneurs and their enterprises (Varum & Rocha, 2013). After the economic recession, scholars who have analyzed the effect of the recessionary context on entrepreneurial intentions, suggest that the economic crisis negatively impacted the entrepreneurs' assessment of environmental conditions that subsequently shaped his/her intention to create a new enterprise (Arrighetti et al., 2016; Nabi & Liñán, 2013). Such

DOI: 10.4018/978-1-6684-4605-8.ch005

crises have led to increased exits by entrepreneurs (Carreira & Teixeira, 2016). Entrepreneurs who resume their business operations quickly or reenter after failures due to an external crisis are considered resilient individuals (Fredrickson, 2001; Korber & McNaughton, 2017). Further, the limited number of studies on reentry in the context of entrepreneurship and crisis focus mainly on the precrisis period and on the skills and resources entrepreneurs need to resist or adapt to crisis conditions (Bullough et al., 2014; Doern et al., 2019; Korber & McNaughton, 2017). This study addresses the above gap and examines the institutional conditions that could facilitate such entrepreneurs to reenter after failures or exits due to an economic crisis.

The motivation behind this study is that entrepreneurial exits due to failure lead to emotional consequences for the entrepreneur (Coad, 2014). Given that not all societies realize similar rates of entrepreneurial reentry after an exit due to failure, the study seeks to establish if some societies have higher informal institutional conditions aided by formal institutional conditions that facilitate entrepreneurial reentry post an economic crisis. Drawing on insights from the institutional configuration perspective (Stephan et al., 2015), this study proposes to establish the effects of cross-level perceived well-being, interpersonal trust, and political stability on the likelihood of entrepreneurial reentry after an exit due to an external crisis such as an economic crisis.

Further, scholarship on entrepreneurship and crisis management (Cowling et al., 2012; Smallbone et al., 2012; Williams & Vorley, 2015) offers two key areas of inquiry in relation to a firm's survival in the face of an external crisis. First is *how* firms could respond to such a crisis and second is the kind of *policies* that could ensure a firm's survival (Kuckertz et al., 2020). However, inquiry on the conditions that lead to entrepreneurs' reentry after an unfavourable exit during a crisis is limited. This study specifically addresses the above gap by examining the research question in the context of an economic crisis: What country-level factors prompt entrepreneurial reentry of entrepreneurs with unfavourable exits during an economic crisis? This study addresses this question by taking a rather nonconventional approach in the proposal that entrepreneurial reentry post an economic crisis is overcome also based on noneconomic conditions in countries. Noneconomic conditions could include national-level cultural values (Muralidharan & Pathak, 2017a; Muralidharan & Pathak, 2019; Pathak & Muralidharan, 2016), informal institutions such societal-level performance orientation, self-expression, and social desirability (Muralidharan & Pathak, 2017b), and societal-level emotions (Pathak & Muralidharan, 2020a; Pathak & Muralidharan, 2020b; Pathak & Muralidharan, 2021). Interplay of noneconomic conditions with regulatory conditions forms the basis of the conceptual model the authors suggest in this study (Muralidharan & Pathak, 2020).

The following are the key contributions of this study in this chapter. The proposed framework in this study addresses the less examined area of contextual antecedents that shape the reentry intentions of entrepreneurs who have exited due to an external crisis. Second, the model contributes to institutional configuration perspective by theorizing the interplay of formal institutions (i.e., stable political conditions in society) and informal institutions (societal level well-being and trust) on entrepreneurial behaviour (i.e., reentry post an exit during a crisis). Finally, the study contributes to calls for multi-level studies in entrepreneurship research through a multi-level theorizing of the interplay of formal institutional conditions (political stability) and informal institutions (societal well-being and trust) at the societal level and their influence on individual level entrepreneurial resilience.

The study is developed as follows. First, the authors provide the theoretical background of the study. Then, they develop key propositions that drive their conceptual model. Finally, they discuss the impli-

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