

OVERCOMING THE STIGMA OF FAILURE

Perceptions of the
European youth

What are young entrepreneurs afraid of?
Report on the ThinkYoung study



1227
participants

18-35
years old

30
countries

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1. Executive Summary

The stigma of failure can be defined as the sum of all the negative consequences that an entrepreneur, whose business failed, has to face.

The lack of a clear distinction between fraudulent bankruptcies and legal failures is a pervasive phenomenon throughout Europe, especially in non-Anglo-Saxon countries, that destroys the extremely valuable capital of experiences accumulated through failure. These are experiences that should instead be shared and elaborated. Failed entrepreneurs may be unable to restart and try again, as the legal implications may severely damage their credit score which, in turn, prevents banks from granting them new loans. Additionally, this may lead to legal prosecutions lasting several years. Moreover, the fear of failure prevents entrepreneurs from abandoning an unsuccessful business in order to start a more successful one, an attitude that at aggregate level damages economic growth and innovation.

Fail2Succeed (F2S) is a ThinkYoung campaign aimed at reducing the negative stigma towards entrepreneurial failure across the European Union (EU). The F2S campaign was founded out of the need to create an entrepreneurial “European identity”, to eliminate the lack of education in the field of entrepreneurship, and to harmonise the national and European legislation to be more encouraging for young people.

The conference “Launch of the Fail2Succeed Campaign”, held at the European Parliament in Brussels on 18th December 2013, kick-started the Fail2Succeed campaign. The campaign has already reached its main goals of starting an informed debate on the stigma of failure and fostering a positive image of those who failed legally. In fact, the United Nations Trade and Development board has chosen the ThinkYoung campaign as a part of the “best practices and related recommendations” available today, and as a role-model initiative to reinvent the role of failure and entrepreneurship among young people.

In continental Europe entrepreneurial failure is commonly stigmatised, whereas in the Anglo-Saxon culture it is more often celebrated. This gap has complex cultural and institutional roots, and shows how the legal framework cannot be detached from the cultural premises surrounding the role of entrepreneurs in society.

According to the European Commission (EC), “even though **only 4-6% of bankruptcies are fraudulent**, public opinion makes a strong link between business failure and fraud” (European Commission, 2011a: 3).

For example, the lack of venture capital in continental Europe leads to a shortage of risk capital, as commercial banking is by definition risk-averse and investment banks do not normally oversee opportunities requiring a few thousand euro of capital.

ThinkYoung suggests undertaking several reforms to promote new and successful European companies. The problem of national legislative fragmentation in bankruptcy laws must be dealt with. Creditors should be protected while offering bankrupt businesses the opportunity to refinance and swap debt into equity can be effective and increase the chance of recovering money. Bankruptcy legislation should also take into account the needs of start-ups and SMEs, which should not be forced to meet the same onerous requirements as multinationals.

Efforts must be made to harmonise and limit the discharge period in which it is prohibited to start a company after going bankrupt. Long discharge periods can seriously discourage entrepreneurship, so it should not take more than three years to be in a position to start again.

ThinkYoung’s survey has shown that, in terms of personal growth, young people perceive failure positively but, in terms of reputation failure, it is generally perceived as negative. Data highlighted a striking gap: on the one hand, **83%** perceive failure as positive for personal development, more than **70%** would give someone who failed a second chance, and **50%** prefer financing a project of an individual who has experienced failure. On the other hand, **50%** are convinced that after failure future professional partners will perceive them negatively and **62%** think that individuals close to them will not grant them a second chance. Ultimately, **75%** are convinced that social expectations are the main cause hindering the recovery after a failure.

Of equal importance is the necessity to introduce reforms that counteract the fact that in countries such as Poland, bankrupt entrepreneurs often lose their social security. Member states could go further by implementing tax breaks or easily accessible starting capital loans and microcredit for young entrepreneurs, continuing to offer practical entrepreneurial experiences to tertiary education students, and actively involving young people in the design and implementation of these policies. They must also guarantee the recognition of entrepreneurial training in informal learning environments. The EC already admits its importance and particularly positive image amongst young people, who are more receptive to these new types of efforts.

2. Introduction

Boosting entrepreneurship by providing a framework that rewards, rather than punishes, business failure, is central to bringing Europe back on track and paving a way out of the crisis. A comparison with the United States of America (USA) illustrates clearly that Europe is lagging behind in terms of appreciating the positive value of failure in entrepreneurship. **Entrepreneurial failure provides a learning experience which can enhance business capabilities and personal development:** according to Laszlo Bock¹ of Google, an experience of failure can prove to be more advantageous than high grades when competing for a job.

European legal systems are evolving toward models shaped around the British experience. In fact, the economic crisis has shown the strong limitations of bankruptcy systems fully based on in-court settlements and the need to find an agreement with the totality of creditors. The Anglo-Saxon system, however, privileges temporary administrators empowered to save the company, therefore letting down only a minority of creditors not willing to lose a part of their claims (Financial Times, 2014).

Moreover, there is a high level of risk aversion in Europe which is not only rooted in tradition, as well as in values and principles promoted in the family and education, but also in the **lack of reward for risk-taking**. Worse still, even when entrepreneurs take a risk and manage to succeed, they often face higher levels of taxation, regulation, and bureaucracy. Even though it is a fact that many start-ups often fail, it is important to realise that entrepreneurship plays an important role in the economy and can lead to significant job creation in the long term.

2.1 The Fail2Succeed campaign

Fail2Succeed is a ThinkYoung campaign aimed at reducing the negative stigma towards entrepreneurial failure across the European Union. The F2S campaign was founded out of the need to create an entrepreneurial “European identity”.

It aims to eliminate the lack of education in the field of entrepreneurship, to harmonise the national and European legislation to be more encouraging for young people, and to reduce bureaucracy. As a result, ThinkYoung launched the Entrepreneurship Summer School both in Brussels and Hong Kong in 2010 which allowed in part to make up for the insufficient knowledge concerning entrepreneurship and the value of failure. However, ThinkYoung understood that merely creating a course, in the classical way of teaching and learning, could not be enough.

In fact, it became necessary to create a campaign because young people continue to be afraid to make decisions and take risks due to the cultural stigma surrounding failure, which is an even greater deterrent than the complexity of bankruptcy law. Another important motive for initiating this campaign was the absence of an actor lobbying for this issue and the fact that nobody mentioned failure when talking about entrepreneurship in Europe.

The conference “Launch of the Fail2Succeed Campaign”, hosted by the MEP Pablo Zalba and organised by ThinkYoung and the Centre for European Studies on 18th December 2013, kick-started ThinkYoung’s initiative aimed at reducing the negative stigma towards entrepreneurial failure and harmonising bankruptcy legislation in the European Union (EU). The event constitutes the first stepping stone in a series of conferences to be held and policy papers to be published in 2014, which will attempt to influence both national and European legislation to be more encouraging of youth entrepreneurship. The campaign is based on the results of a research study conducted by ThinkYoung, which includes a pan-European youth survey and a documentary.

The survey of more than 1,200 responses revealed that the stigma of failure plays a central role in restraining young entrepreneurs from starting a business both at an institutional and social level.

The campaign aims to empower young people with the tools to learn from failure and to grasp what can be improved by experiencing entrepreneurial failure. The final report is accompanied by a documentary, conducted by the ThinkYoung LAB in winter 2013, which portrays the lives of young Europeans who have faced failure and restarted a business venture successfully.

The Fail2Succeed campaign has already reached its main goals of starting an informed debate on the stigma of failure and of fostering a positive image of those who failed legally.

The United Nations Trade and Development board has chosen the ThinkYoung campaign as a part of the “best practices and related recommendations” available today, and as a role-model initiative to reinvent the role of failure and entrepreneurship among young people
(United Nations, 2014: 10-11).

Several other important entities and political actors have recognised Fail2Succeed.

Ryan Heath, Spokesperson for the Vice President of the European Commission, has saluted the campaign's efforts stating: "What a great campaign by ThinkYoung's Fail2Succeed – overcoming the stigma of failure".

Moreover, Cafébabel, a pan-European news website, featured an interview with ThinkYoung's CEO Andrea Gerosa entitled "Fail2Succeed: Changing European Attitudes towards Entrepreneurship".

3. The Stigma of Failure

3.1 Definition and cultural background

The stigma of failure can be defined as the sum of all the negative consequences that an entrepreneur, whose business failed, has to face.

These consequences can be both institutional and social (see table 1), showing differences between countries and between legal ramifications. Of course, in our campaign, only non-fraudulent failures are targeted. However, even without criminal allegations, failed entrepreneurs face a loss of credibility in front of their relevant others and may feel depressed and ashamed. Moreover, they may not be able to restart and try again, as the legal implications of a failure may severely damage their credit score which, in turn prevents banks from granting them new loans. They may also be prosecuted by law for several years while allegations of potential fraud are being investigated.

The fear of failure prevents entrepreneurs from abandoning an unsuccessful business in order to start a more successful one, an attitude that at aggregate level damages economic growth and innovation.

Nonetheless, establishing a European system able to help restructure companies in crisis, thereby saving those with a great potential but in economic disarray, is a desirable middle-term goal².

Today, 73% of people in EU countries indicate fear of failure as one of the main forces restraining them from starting a business (Amway, 2013). As ThinkYoung, we aimed at identifying the sources of the stigma, its main consequences, and the reasons for such a difference compared to other continents.

<i>Institutional</i>	<i>Social</i>
<ul style="list-style-type: none"> • Tougher access to credit • Punitive legislation³ • Legal restrictions in opening a new business 	<ul style="list-style-type: none"> • Damages to individual's reputation • Loss of credibility in front of potential business partners • Sharp decrease of self-esteem

Table 1 - Main consequences of stigma

3.1.1 The “Silicon Valley Paranoia” at large

In continental Europe entrepreneurial failure is commonly stigmatised, whereas in the Anglo-Saxon culture it is more often celebrated. This gap has complex cultural and institutional roots (see e.g., here and after, Hofstede, 2001), and shows how the legal framework cannot be detached from the cultural premises surrounding the role of entrepreneurs in society. Two basic variables to be understood, before moving to the European attitude toward failure, are the “Silicon Valley Paranoia” (Gerosa & Tirapani, 2013) and the prestige granted to innovators and businessmen in society. A “European Silicon Valley” is a recurring concept among policy makers in Europe, and we have chosen the word “paranoia” because a part of this project is irrational. In fact, very often the ideas suggested are based on the assumption that importing the American start-up-friendly policies would quickly trigger a proliferation of newly established companies. That would hardly be the case, due to the different cultural premises: the ultimate goal of growth based on innovative companies requires EU industrial policies to be shaped, while keeping in mind the European cultural exception and fragmentation.

The role of entrepreneurs in Europe has a long, conflicting history and shows differences between countries.

For example, in Switzerland we can speak of a “paradigmatic example of democratic corporativism” (Kriesi & Trechsel, 2001), where business associations are fully and openly represented in the political decision making process. On the other side of the spectrum, in Latin European countries businessmen are rarely celebrated or given political responsibilities (exceptions being e.g. in Italy in 2012 during Monti’s office or in 1992 during the transaction toward the Single Market). In Latin countries, collusion between the oligopoly of big business and the government has been very common and constitutes a type of governance far from transparency, characterised by few subsidised national corporations⁴.

In Latin countries, there has been a substantial growth of SMEs “despite the government” and despite the business environment, characterised by a lack of trust between peers.

Family-based businesses, especially, have experienced an ever greater proliferation: as a matter of fact, these were the only economic institutions able to establish long-lasting and strong relationships with their stakeholders.

We can see how failure may lead to the exclusion of risk-takers who, by going out of business and falling short of the expectations, are excluded from civil society, as their business and personal life overlap.

While the East European cases, due to their Communist legacy, are very peculiar ones (as Poland shows), the stigma of failure is strong in the Central European mentality, as well. These societies are characterised by intertwined and deep social boundaries and not a marked form of individualism, as in the English tradition, namely after the 1688 revolution (Trevelyan, 1965).

The Anglo-Saxon model has imposed itself globally, adapting to the local needs, as can be seen in the Asian case (see i.e. Hong Kong or Singapore). This unique political model has drawn a clear line between the public and private sphere⁵ charging individuals with the duty of creating jobs while almost eliminating the presence of state capitalism. The American society has embedded a concept of meritocracy that strongly departs from our European standards: on the one hand, it celebrates winners extensively (see e.g. the speeches that successful businessmen give at Ivy-league Universities, such as Steve Jobs at Stanford), while on the other it punishes transgressors severely⁶. In addition, the American model provides, in general, few public services as it aims to limit the welfare state. In this scenario, failure is considered as a natural part of the “American dream”, since everyone is given the opportunity to try many times but should not expect any help if his/her business venture fails.

In the Anglo-Saxon culture usually personal and business connections do not overlap, and so failure does not automatically affect or even damage the personal sphere (Kusnet & Teixeira, 1999: 61).

Religion, social norms and the legacy of the Second World War have shifted the European attitude toward risk-aversion (Gerosa & Tirapani, 2013: 206-207) and increased collectivism. In conclusion, several variables may explain the cultural gap between the USA and Europe, but these will not be discussed in depth at this point as this would transcend the scope of this report. Nevertheless, it is of utmost importance to keep this cultural cleavage in mind in order to fully understand why the stigma exists and how we can successfully import the best practices from the United States.

<i>Variables</i>	<i>Latin</i>	<i>Central European</i>	<i>Anglo-Saxon</i>
Personal and business ties	Overlapping	Partially overlapping	Divided
Reputation	Family reputation	Community reputation	Social reputation
Economic structure	Oligopoly and former „State Champions“	Social market economy	Individualism and liberalism
Society	Family	Banking system	Venture capitals
Stigma	Collectivistic	Collectivistic	Individualistic
	Strong	Strong	

Table 2 - Cultural differences toward entrepreneurship

3.1.2. The stigma and access to credit⁷

Innovative and risky projects struggle to access credit because capital is rarely allocated to start-up projects. Access to credit is even more difficult for those who have failed

In the EU, the consequences of bankruptcy make loan eligibility rare for individuals suffering from low credit scoring.

Most SMEs use bank loans instead of risky capital (that is provided by venture capitalists), the former being by definition risk-averse. In accordance with the credit crunch started in 2008, entities like the European institutions are posing questionable efforts in alleviating loan qualification.

These will not be sufficient as long as investments are not allocated to more innovative activities by actors other than commercial banks.

In addition, investment banking normally does not oversee investments amounting to less than half a million euro, but most of the start-ups in the tertiary sector do not require capital higher than one hundred thousand euro.

From a managerial point of view, banks through commercial banking and loans do not enter into the management of nascent companies and therefore have no long term interest in the success of the respective project: their strategy relies on recovering the capital plus interest and they require solid collaterals as guarantees. This financing structure is inherently risk-averse. What is more, as a consequence of the crisis, banks are now under pressure to give less money, since capital requirements have been raised due to stricter rules on financial leverage. Private equities and venture capitalists in contrast seek for opportunities, make assessments of risks and benefits, and consequently are failure-friendly by definition. They enter into the management of the companies that they have financed and accept the risk of losing the whole capital as they expect very high returns on investments if and when the company takes off.

The deals between prospective entrepreneurs and venture capitalists are tailor-made which might lead to higher chances for entrepreneurs who have failed to access capital again, but might equally lead to possible dead deals.

Money-seekers need to learn how to conduct these negotiations in order to be able to differentiate between dead deals and stuck ones (Petty & Gruber, 2009). This is a competence required in order to avoid abandoning innovative projects merely on the basis of inexperience.

From this scenario we can clearly see how failure worsens the credit position of failed entrepreneurs facing banks, even when taking into account that failure can be a positively evaluated experience from the point of view of business angels. The lack of “smart money”, if money can be smart, in Europe is a leading cause of a higher institutional stigma than in Anglo-Saxon countries.

<i>Variables</i>	<i>Banks⁸</i>	<i>Venture Capitalists</i>
Attitude toward risk	Risk-averse	Risk-lovers
Long term goals of investors	Not aligned with the management of the company financed	Aligned with the management of the company financed
Type of financing	Provide loans	Provide assets and capitals
Risk	Low. 100% return of money borrowed (plus interest), guaranteed by collateral	High. Trade-off: high risk of losing the whole capital/high returns on investments
Decision to finance	Based on scientific criteria, rigid	Gut feeling, tailor-made

Table 3 - Banks vs Venture Capitalists

3.2 Current Scenario

The stigma of failure can be analysed from two points of view: social and institutional. The European legislation toward bankruptcy is currently not harmonised: the European Commission is taking action based on studies showing that the request to repay debts for a period exceeding three years strongly discourages the decision to start a new business (European Commission, 2011a). Nevertheless, there is room for intervention at national level as well:

The Polish Member of the European Parliament (as of 2014) Jędrzejewska⁹ contends that the stigma of failure is manifested in the lack of social security for the self-employed, a scenario similar to countries such as Italy and Spain.

Countries' legislation toward bankruptcy showed a positive trend in the last decade: for example in 2006 Italy reformed its legal system and abolished the former law which stipulated that entrepreneurs going bankrupt lose their political rights for 5 years (ISole24Ore, 2006). Other countries are instead taking steps to prevent the stigma: Denmark, Estonia, and Germany all scored high in the table created by the European Commission evaluating the measures undertaken by member states to tackle this issue, including help centres, informational meetings, and public agencies (European Commission, 2011b: 122). These programmes aim at preventing entrepreneurial failure and, if impossible, at providing psychological and legal help to entrepreneurs going through bankruptcy procedures. As a result, these measures would allow entrepreneurs to restart from scratch as soon as they are fully discharged from all allegations¹⁰.

3.2.1 The stigma as an European issue

Entrepreneurial failure is too often automatically associated with fraudulent activities: “Even though only 4-6% of bankruptcies are fraudulent,

public opinion makes a strong link between business failure and fraud. Many honest bankrupt entrepreneurs feel discouraged to re-start due to the stigma [...] or discrimination faced after a bankruptcy” (European Commission, 2011a: 3). Moreover, at the European level, the macroeconomic level, failure is well studied: “Bankruptcies are an important issue for the European economy [as] 50% of [European] enterprises do not survive the first five years of their life and, of all business closures, bankruptcies account in average for 15%” (European Commission, 2011b: 114). The previous statistics portray an environment where failure is perceived as omni-present and the most likely outcome while undertaking a risky business activity. 37% of Europeans list the risk of losing their property as the top reason for not starting a business (European Commission, 2011b). As such, prospective entrepreneurs are immersed in an environment providing them with very strong arguments which make them believe that bankruptcy will extensively hurt them and that failure is likely to occur. This is a reliable predictor for the choice of potential entrepreneurs not to start a risky activity in conditions of uncertainty (Valenza, 2011).

According to Amway, at the global level there are no marked differences in the attitudes toward entrepreneurial failure when it comes to age or sex. However, for only one out of three people in the United States fear of failure is an obstacle to potential entrepreneurship, whereas in Europe fear retains two out of three people (Amway, 2013).

One of the chief contributors to entrepreneurial failure is Professor Landier. He argues that

the stigma damages innovation economies since companies cannot abandon failed projects to start more innovative ones.

This assumption is based on the fact that discontinuing a project or even closing a business will often result in negative perceptions and therefore make the access to capital more difficult. As a consequence, the stigma poses a significant limitation to entrepreneurial innovation in advanced economies (Landier, 2004).

3.2.2 European Union Involvement

The European Commission¹¹ echoes the importance of entrepreneurship in Europe and the need to tackle the stigma of failure and the existing negative consequences of business failure.

The DG Enterprise and Industry acknowledges in the Entrepreneurship 2020 Action Plan that bankruptcy procedures need to be simplified and more encouraging for budding entrepreneurs.

It is essential that the time in which entrepreneurs are affected by bankruptcy is reduced. For instance, it should not take more than three years for entrepreneurs to discharge their debt as the threat of long periods of continuous debt repayment can significantly discourage entrepreneurship. This should be accompanied by measures which aim to

This should be accompanied by measures which aim to reduce the time it takes to restart a business, receive the necessary licenses and permits, as well as settle bankruptcy procedures.

DG Enterprise and Industry and DG Education and Culture have recognised that education plays a key role in dealing with the stigmatisation and negative cultural perceptions of failure. Promoting creativity and entrepreneurship in schools can help create a protected environment in which pupils can fail “safely” and introduce a culture in which making mistakes is allowed and not penalised. Aside from the necessity of offering a space in which young people are free to fail, is it also important to create a setting that facilitates the development of new ideas and ultimately to establish institutions in which these ideas can come to life.

However, the fact that education in the EU is the responsibility of member states signifies that the European institutions have limited possibilities to influence curricula in schools. Nonetheless, the Entrepreneurship 2020 Action Plan intends to include practical experiences in entrepreneurship in schools, as well as to implement support structures for women, seniors, migrants, the unemployed, and other potential entrepreneurs.

Universities should focus more on inviting entrepreneurs to present themselves and to pass on their experiences to students in order to convey the message that entrepreneurship can represent a viable option for young people.

In order to overcome the lack of venture capitalists and to remove the barriers that failed entrepreneurs have to face when accessing capital, the European Commission has developed a couple of key projects, namely the

“European Venture Capital Fund Regulation (EuVECA)” (Regulation (EU) 345/2013) and the “European Social Entrepreneurship Regulation (EuSEF)” (Regulation (EU) 346/2013).

The latter focuses on the creation of companies whose goals are social in nature and consequently not entirely based on maximising profit. In order to make these entrepreneurial projects possible, the Commission took action to facilitate their access to capital, as their activities would help member states to provide innovative welfare services.

It is elementary to liberate bankrupt entrepreneurs from their debt burden and obligations as quickly as possible in order to create conditions that allow them to get back on their feet in a short period of time. Offering bankrupt businesses the opportunity to refinance and swap debt into equity can be effective and increase the chance of recovering money. Of equal importance is the necessity to introduce reforms that counteract the fact that in countries, such as Poland, bankrupt entrepreneurs often lose their social security.

In the following, two main actions undertaken by the European Commission are reported. First: “the Communication ‘A Small Business Act for Europe’, adopted in 2008, devoted the second of its 10 principles to [...] *ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance* and calls on the Commission to promote a second chance policy [...] to: promote a positive attitude in society towards giving entrepreneurs a fresh start; enable the completion of all legal procedures to wind up a business, in the case of non-fraudulent bankruptcy, within a year; ensure that re-starters are treated on an equal footing with new start-ups.” (European Commission, 2011a: 4).

Second: “the European Commission advocates then a four step strategy: prevention (early warning systems, support mechanisms); out-of-court settlements; in-court procedures; treatment of the entrepreneur post-bankruptcy and conditions for a second chance (liquidation, discharge and its consequences)” (ibidem: 6).

ThinkYoung focuses on the first and last point (prevention and second chance) because,

in order to reduce the social stigma, people with no criminal or fraudulent charges should be free to try again and should be able to count on a "safety net" which should consist of solidarity, help, and mentoring with the goal of learning from failure. This is exactly the very point of the Fail2Succeed campaign.

4. ThinkYoung Survey

ThinkYoung has found in several cultural barriers the main obstacles to youth entrepreneurship. For this very reason we have started a cycle of reports and summer schools aimed at instilling a different approach to entrepreneurship. During its several years of experience with entrepreneurship, ThinkYoung reached the conclusion that the stigma of failure is one of the key elements to be studied and overcome.

After analysing the current approaches to the stigma of failure and taking into consideration the academic literature, we have noticed that the stigma is normally considered as a monolith consisting of the compounded effects of psychological and social pressures. At ThinkYoung we have worked on a model to test at which level the stigma is the strongest and where taking actions will be the most effective.

The stigma of failure can be broken down into sub-variables (see figure 1), some immaterial (stigma as fear of being refused and judged by peers and relevant others), some formal and specific (legislative regime, bank procedures for those who have already faced a failure).

The cultural element here is extremely strong since it affects countries very differently. For example, Anglo-Saxon countries have a strong stigma toward failure since people are judged by their life achievements (Hofstede, 2001). Nevertheless, legislation makes it possible to have a second chance more easily and encourages risk-lovers and venture capitalists. The rest of Europe, however, shows a substantially higher level of fragmentation and a wide span of different legislations which make the contrast even starker.

The stigma of failure is embedded in continental Europe in multiple layers, namely restrictive legislation, difficult access to finance and social stigma for those whose business has failed.

The starting hypothesis rests on the idea that entrepreneurs, whether prospective or already experienced, are facing a mix of social and institutional pressures which cast a shadow over the eventuality of failing.

Society

- ◆ Perception of failed people
- ◆ Attitue toward giving second chances

Institutional

- ◆ Bankcrupcy law
- ◆ Banks' loans and Venture Capitalists

Entourage

- ◆ Fear of judgement from relevant others
- ◆ How you judge a relevant other than has failed

Individual

- ◆ Fear of facing yourself after failure
- ◆ Psycological diarray

Figure 1 - Levels of stigma

4.1 Foreground Information

As can be seen in figure 1, the stigma has been tested on four grounds. The survey addressed these levels asking respondents sets of questions to:

1. Assess their general (society level) and then personal (individual level) perception of the stigma;
2. Assess their knowledge and attitude toward the attitudes of regulators and banks when deciding to finance a failed entrepreneur (institutional level);

Then, respondents were asked to imagine themselves:

3. As a potential venture capitalist about to choose whether to finance someone with no entrepreneurial experience or someone who has failed before (society level);
4. As a close friend or relative of someone who failed and is about to start a new business again (entourage level);
5. As someone who failed and has to start again after bankruptcy (entourage and individual level).

The survey then asked respondents which are the main causes of the stigma and which of the alternatives suggested by ThinkYoung would be the most effective in order to reduce it.

The promotion team spread the survey to achieve **more than 1,200 respondents** in one month. All precisely from 22nd October to 24th November 2013. Respondents were contacted through three main channels: institutions, social media, and direct interviews in Belgium. Concerning institutions, the main referents were European universities (chiefly business schools), think-tanks, non-profit organisations, expat communities and student organisations; our online presence targeted similar groups across Europe. With regard to the offline collection of results, we targeted Brussels-based universities and the airport, which granted valid answers from a quite diverse audience. In the latter case, ThinkYoung members used portable devices to choose representative potential respondents and help them during the completion of the survey.

4.2 Main results

In line with the findings of Amway (2013), age, sex, education, degree of parents, and size of the city of residence are not significant predictors for European youth's attitudes toward the stigma of failure. This corroborates the thesis that the stigma is a profoundly social issue, strongly linked to the traits of Western society.

4.2.1 Word association

6 out of 10 Young Europeans associated "failure" with very negative concepts, spanning from a mere negative label (bad) to word associations that point to deep psychological issues (depression, sadness, frustration, disappointment, fear, etc.). Despite these negative perceptions there was also room for positive concepts: respondents indicated "try", "learning" or "opportunity" as instinctive associations with failure. This paved the way for our Fail2Succeed campaign, which uses these key words to overturn the current negative attitude toward failure.



Figure 2 - Main words associated with "failure"

4.2.2 Experience with entrepreneurship and failure

Stereotypes and suspiciousness are often born out of ignorance or lack of personal experience. The results of our survey show the lack of knowledge among young Europeans about entrepreneurship and, to a greater extent, about failure.

29% have never experienced, directly or indirectly, entrepreneurship, and **52%** have never faced business failure, not even indirectly.

Even more striking is the figure that only **10%** have experienced failure directly, meaning that

9 out of 10 young Europeans have no personal experience of how to recover from a failure.

Even among those who chose “self-employed” as their current professional status, direct experience with failure was only mentioned in **27%** of the answers.

Respondents who have failed in the past are less biased by the stigma than the average young person:

- **62%** are more likely¹² to positively judge the professional capabilities of someone who failed;
- **35%** are more likely¹³ to see a “positive” or “very positive” impact of failure on their professional capabilities;
- **21%** are more likely¹⁴ to finance, ceteris paribus, someone who experienced failure over someone with no experience at all.

These results are in line with the hypothesis that more education on failure lowers the stigma.

What is the experience with entrepreneurship?

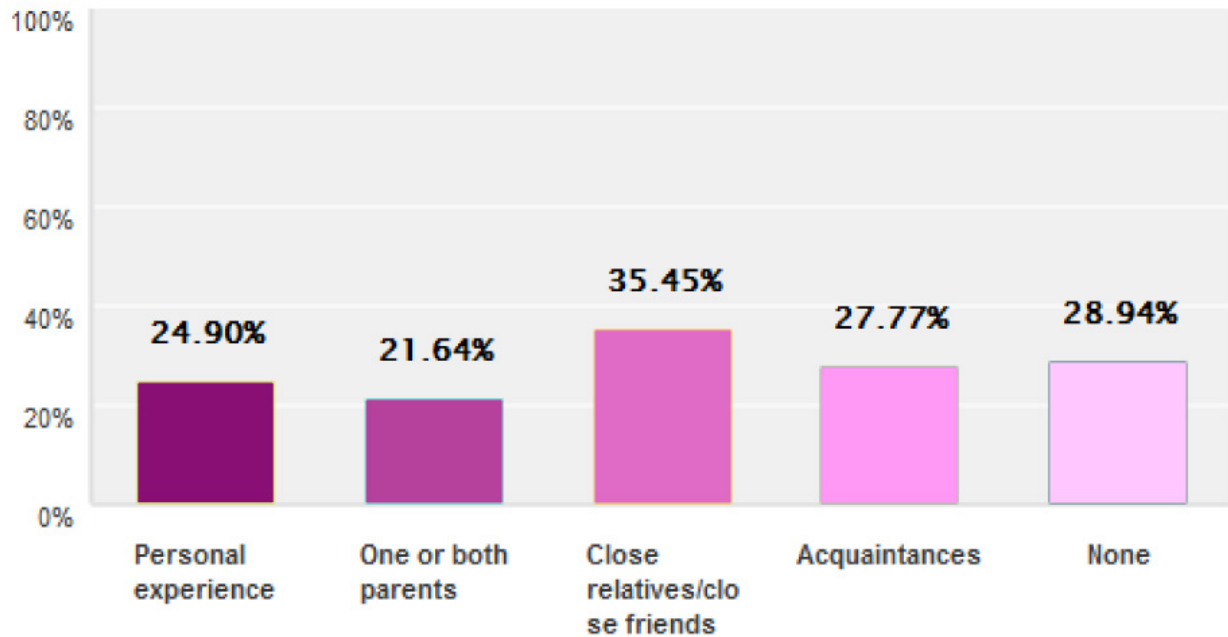


Figure 3 - Experience with entrepreneurship, all respondents

What is your experience with entrepreneurial FAILURE?

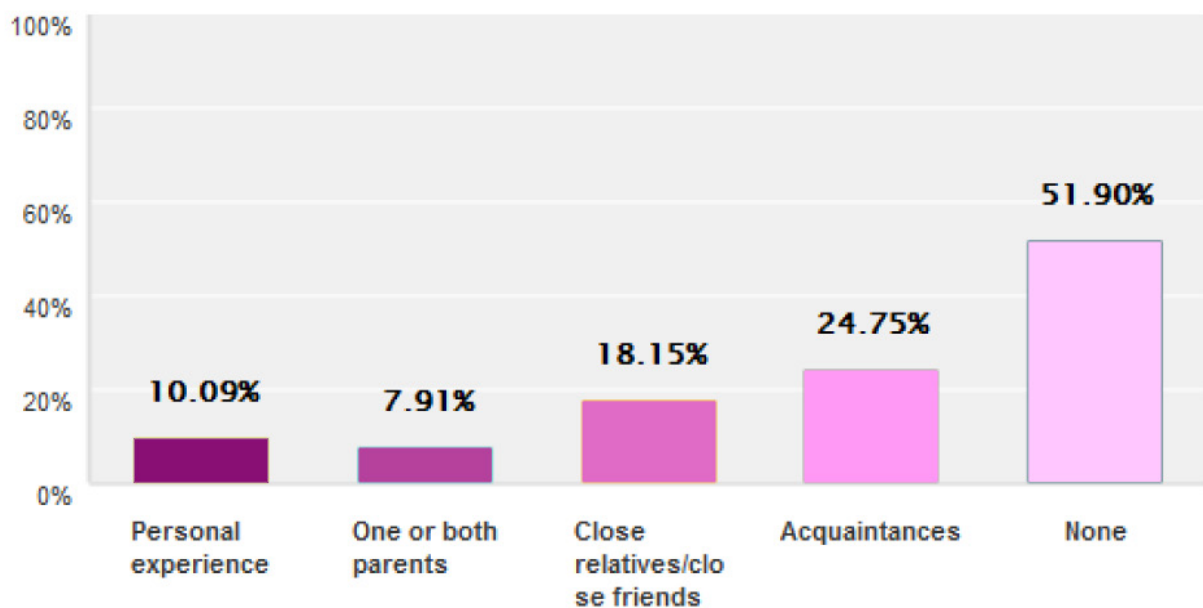


Figure 4 - Experience with failure, all respondents

4.2.3 Levels of the stigma: individual and entourage

The opinions of relevant others are of central importance to prospective entrepreneurs for two main reasons. First, the need for approval and esteem from our peers and relatives is required in order to embark on innovative and risky activities; second, especially among young people, their personal entourage can be the only form of access to credit in the short-term, and a failure may endanger any future business venture. In this sense, the perception of the stigma may be a major force in restraining European youth from starting a business (see e.g. Valenza, 2011).

The survey asked respondents to self-assess their perception of the stigma from a variety of points of view. The goal was to understand the personal fears and hopes that entrepreneurial failure causes in potential or experienced entrepreneurs (the latter representing 25% of the total surveyed population). The juxtaposition of two opposite trends may make clear how strongly the stigma is rooted in society, but may as well highlight the trend towards change among European youth:

- On the one hand, failure is seen as a strong social stigma that will damage the ability to go back on the market or to families in order to announce the intention of starting a new business
 - 60% state that they will not get funded again by someone close to them;
 - More than 40% see their motivation to engage in future entrepreneurial activities negatively or very negatively affected;
- On the other hand, failure is widely seen as positive for personal experience and the improvement of business capabilities
 - 72% state that it is not failure per se that would retain them from starting a business again;
 - 83% see failure as positive for their personal development;
 - 41% see failure as positive or very positive for their professional capabilities.

Another result in line with the need for more entrepreneurial education relates to the attitudes of young people with no experience of failure or entrepreneurship at large.

Among those respondents stating that failure is not useful for their personal development, the share of those with no entrepreneurial experience is 92% higher than the average

(54% against 29%), and the share of those with no failure experience is 25% higher (65% against 52% of the average).

Assume YOU ARE character A. How do you believe your previous failure would affect...

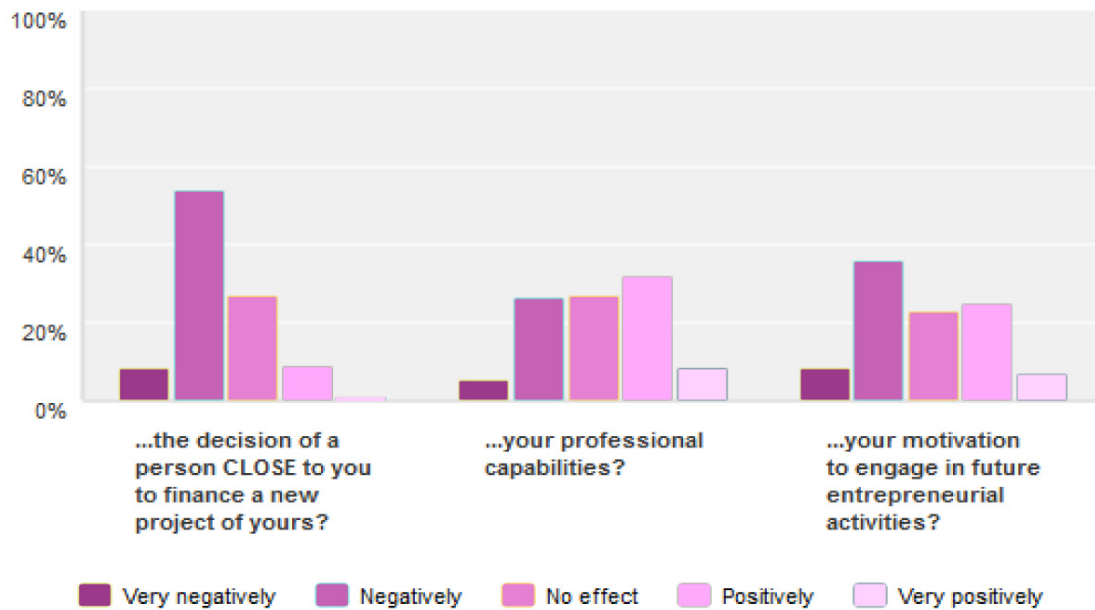


Figure 5 - Effects of failure on respondents¹⁵

Do you regard failure as useful for your personal development?

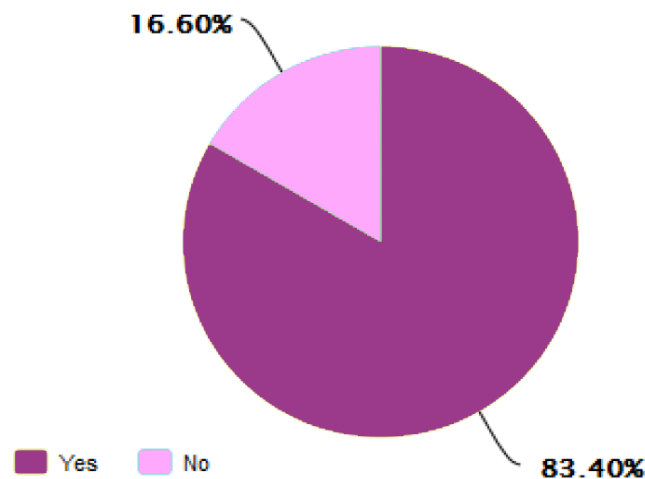


Figure 6 - Failure and personal development

In line with the conclusions on the individual-level stigma, failure is not seen as an indisputable sign of lack of skills or a good reason not to finance a close relative or friend a second time. 60% of European youth do not think that failure significantly affects professional capabilities of someone in their entourage, and 73% would give him/her a second chance. These results can lead to several conclusions, but their resilience regardless of the country of residence of respondents shows an interesting path of analysis for further research. Nevertheless, there appears to be a gap between how young people think they will be perceived by peers and the reality, a gap that needs to be bridged in order to boost entrepreneurship and innovation through risky projects.

Assume character A is a person CLOSE TO YOU and you have the financial resources to support him. How likely is it that....

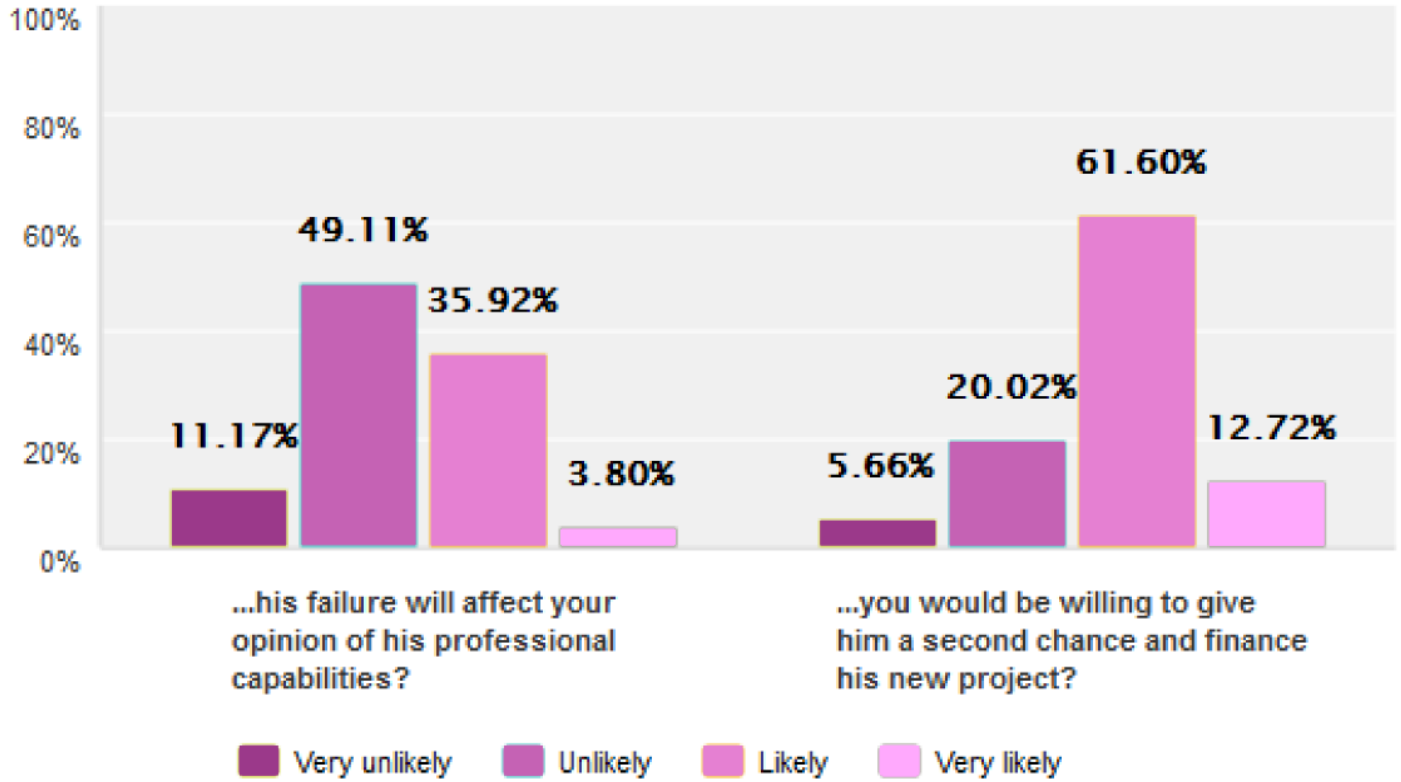


Figure 7 - Attitude toward failure in one's entourage

4.2.4 Levels of the stigma: institutional

The young public has little knowledge of the current legislative scenario in their respective country of residence:

51% ignore the bankruptcy legislation and 48% are not familiar with banks' policies when dealing with customers who experienced entrepreneurial bankruptcy.

In contrast, those who experienced failure have a better knowledge of banks' policies: they indicate that these policies are too restrictive in 40% of cases, compared to the average of 25%.

How do you perceive bank's policies in dealing with customers that experienced entrepreneurial bankruptcy in your country of residence?

Experienced failure

Never experienced failure

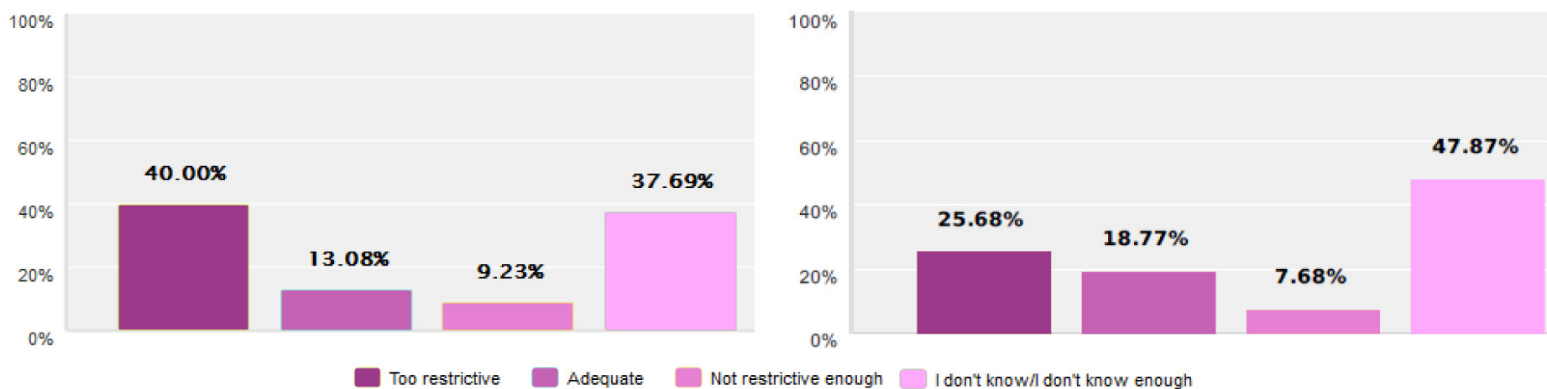


Figure 8 - Comparison between attitudes toward bankruptcy legislation

4.2.5 Levels of the stigma: society

The survey tested the perception of the stigma at the social level by identifying the burdens that European youth associate with entrepreneurial failure. Confirming the idea that the stigma remains strong, one out of two respondents stated that a failed entrepreneur will be perceived negatively by a business partner. Nevertheless, 23% are convinced that failure will be perceived positively, indicating room for future improvement of the scenario.

Although almost 40% think that policies play a major role in causing the stigma, the urgency to tackle this issue as well as the social problem are underlined by

73% of respondents who see in the social expectations and perceptions the main vector of the stigma,

along with the pressure at family level (35%). Interestingly enough, in line with the trend that sees Europe as the only continent where religion is progressively losing ground (see e.g. Ferguson, 2005), religion is indicated as a vector of the stigma in only one out of ten cases, a figure that is very similar in all countries that were analysed.

Do you believe that character A will be perceived differently than character B by potential business partners?

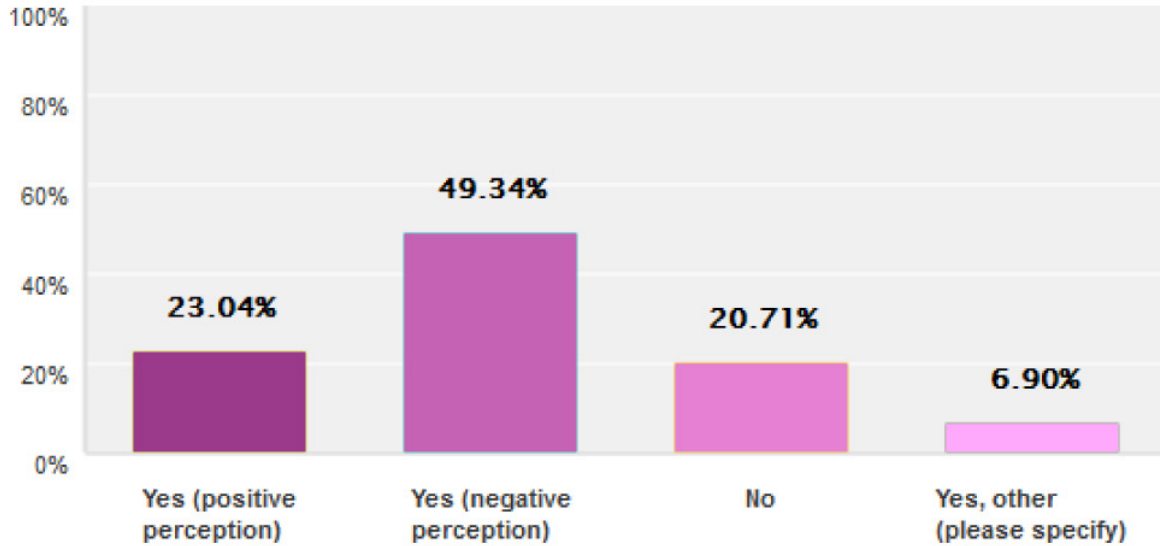


Figure 9 - Social perception of a failed entrepreneur

What are the causes of the stigma of failure in your opinion?

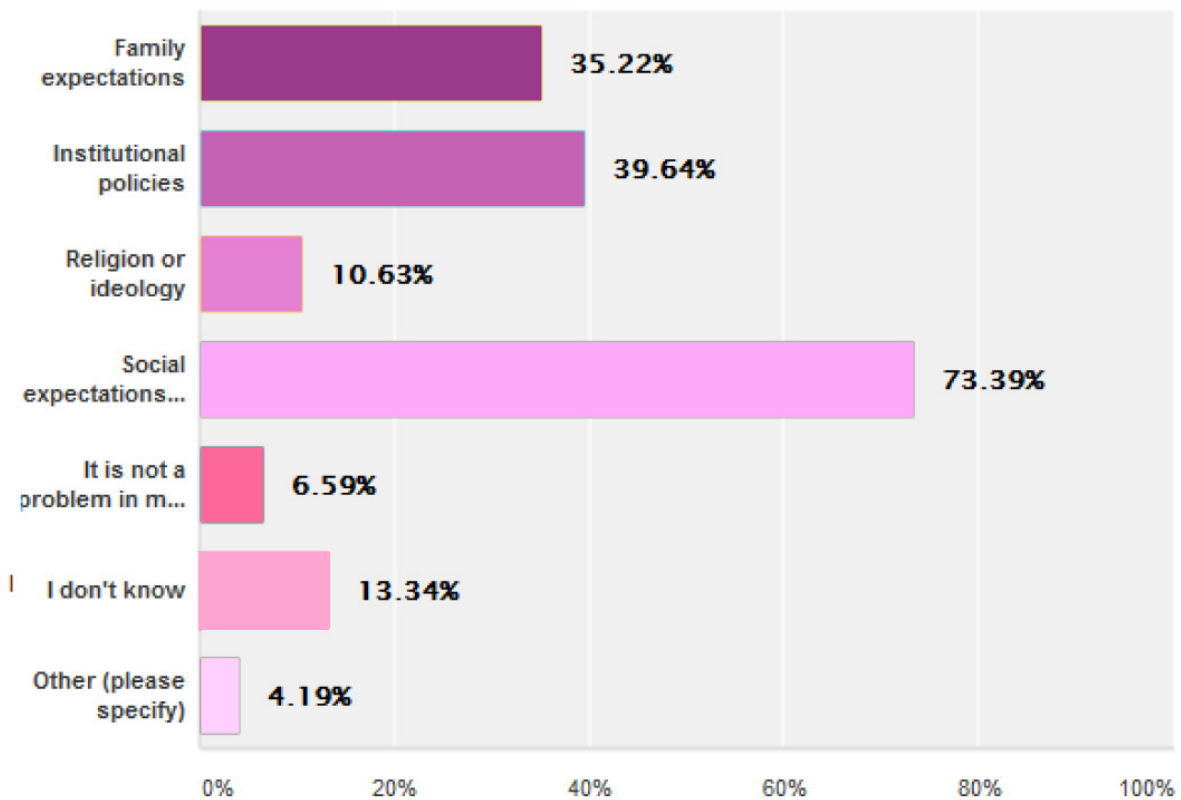


Figure 10 - Main causes of the stigma

4.2.6 Reactions to ThinkYoung's proposals

ThinkYoung proposed three ways to tackle the stigma of failure and received an enthusiastic reception in terms of efficacy. Hereafter, the list of options, ranked by the percentage of answers for "effective" and "extremely effective" and introduced by the aggregate figure, is presented:

1. **56%** of approval: harmonisation of bankruptcy legislation and implementation of policies to make it easier for failed entrepreneurs to restart;
2. **46%** of approval: creation of specific funds to help failed entrepreneurs access credit;
3. **31%** of approval: promotion of workshops, seminars, summer schools, etc. which boost confidence among entrepreneurs through tackling the misconceptions about failure.

In your opinion how effective are the following measures in reducing the stigma of failure?

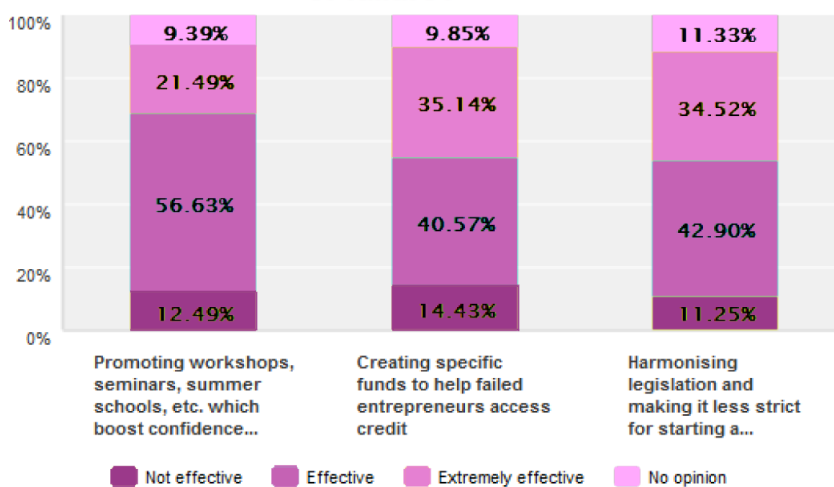


Figure 11 - Reactions to ThinkYoung proposals

In general, in order to overcome the stigma young people rely primarily on market actors (46%), and then in equal measure on local, national and European institutions (around 31%), with no significant differences between countries.

4.2.7 Cross-country comparison

A cross-country¹⁶ comparison shows interesting trends underpinning the hypothesis of a division between the United Kingdom (UK) and continental Europe.

Nonetheless young Polish were identified as being very much entrepreneurship- and failure-friendly, a result in line with the fast economic growth of the country.

For this comparison 6 major countries have been considered: France, Germany, Italy, Poland, Spain, and the United Kingdom.

British and Polish youth have more entrepreneurial experience (**33%** and **29%** of direct experience compared to the average of **22%** in the other four countries). Only **15%** of Polish respondents stated having no experience at all, compared to **20%** in the UK and an average of **26%** in the other countries.

What is more striking is the experience with failure: only **39%** of Polish youth have none, while in the other five countries figures are above **50%**.

Again, **31%** of Polish youth compared to the average of **20%** think that someone who failed will be perceived positively by business partners.

Data from the survey corroborate the thesis of the cultural cleavage between Anglo-Saxons and the others:

only **13%** of British had a bad first impression and **20%** a good one, when asked about the fictional character who failed, compared to the average of, respectively, **20%** and **12%** in the other countries.

<i>Variables</i>	<i>Poland</i>	<i>UK</i>	<i>Average of other 4</i>
Personal entrepreneurial experience	33%	29%	22%
No direct or indirect entrepreneurial experience	15%	20%	26%
No direct or indirect failure experience	39%	56%	51%
Someone who failed will be perceived positively by business partners	31%	20%	20%
First impression of the professional capabilities of someone who failed: BAD	20%	13%	20%
First impression of the professional capabilities of someone who failed: GOOD	12%	20%	13%

Table 4 - Country comparison

5. Position Paper¹⁷

ThinkYoung wants to change the cultural stigma surrounding entrepreneurial failure in Europe. Policy should reward those who take risks, but Europe is often reluctant to give a second chance to those who have failed honestly. We acknowledge that much of the change that is necessary does not stem from new rules and regulations, but rather from a change in mentality among European citizens and economic actors.

We have seen that much of the reluctance that prevents an entrepreneur from starting a risky project in Europe is based on the fear of social consequences in case of failure. There is only so much that legislation can do to fight this. The European Commission must be praised for its efforts so far, especially considering the limited tools at its disposal in matters that still pertain in great measure to national law-making. The EC is aware that entrepreneurship is one the keys to Europe's economic comeback and is acting in consequence, but it still suffers from an inability to enforce actions in the member states.

However, several areas of public policy need urgent reform if these bureaucratic efforts are to lead to new and successful European companies:

- The problem of legislative fragmentation in bankruptcy laws must be dealt with, especially for companies working in more than one member state (a state of affairs that is increasingly common because of the single market). The real need to intervene is at the national level, *members states must try to establish common rules if a true European start up scene is to appear.*
- *'Bankruptcy legislation must also impose rational limits in the event of failure. Responsible risk-taking must not be punished, as it is a fundamental source of wealth and employment.* Creditors should obviously be protected and offering bankrupt businesses the opportunity to refinance and swap debt into equity can be effective and increase the chance of recovering money.
- Bankruptcy legislation should also take into account the needs of start-ups and SMEs, which should not be forced to meet the same onerous requirements as multinationals which are going through bankruptcy proceedings.
- Efforts must be made to *harmonise and limit the discharge period in which you cannot start a company after going bankrupt.* Long discharge periods can seriously discourage entrepreneurship, so it should not take more than three years to be in a position to start again. Of equal importance is the necessity to introduce reforms that counteract the fact that in countries, such as Poland, bankrupt entrepreneurs often lose their social security. Specific funds to help failed entrepreneurs access credit should also be put in place.
- *'Young people are still underrepresented in entrepreneurial activities across the EU and tailored initiatives need to be delivered to enable them to start their own business.* The 2020 Entrepreneurship Action Plan addresses as a subset of the unemployed, whereas other groups do have specific agendas.

- Member states could go further by implementing tax breaks or easily accessible starting capital loans and microcredit for young entrepreneurs. Furthermore, they could continue to offer practical entrepreneurial experiences to tertiary education students and actively involve young people in the design and implementation of these policies. *Member states must also design business-training programmes for out of work young people as a crucial part of their active labour market policies.* They must also guarantee the recognition of entrepreneurial training in informal learning environments. These strategies must be coherent at the national and regional levels, involving public and private stakeholders such as business organisations and education providers.
- *‘Both innovative and social entrepreneurship must be given more structural support by the Commission and the member states.’* The EC already admits their importance and particularly positive image amongst young people, who are more receptive to these new types of efforts, as well as the fact that entrepreneurial experiences can also be gained outside education (training courses, business plan challenges, volunteering).

All these efforts are based on the fact that entrepreneurs who try again are statistically more successful and survive longer than average new companies. They also grow faster and employ more workers. Failed entrepreneurs should be seen to have taken advantage of an opportunity to learn and improve. Failure must thus become an accepted part of success.

6. Conclusions

The stigma of failure is a pervasive phenomenon throughout Europe that leads to a lack of innovation and disrupts the lives of those entrepreneurs who have tried and have not succeeded. What is more, it destroys the extremely valuable capital of experiences accumulated through failure, experiences that should instead be shared and elaborated.

We should not overlap giving a second choice to everyone and punishing fraudulent practices or bad businesses. “Bankruptcy legislation has to balance two conflicting interests. On the one hand, the creditor’s interests must be protected. On the other any system must keep viable businesses alive and, more importantly, create an environment that aids an entrepreneur to take risks and start a new business.” (European Commission, 2011a: 5). In addition,

entrepreneurship should not be a panacea to all the youth unemployment problems in Europe

(Confrontations Europe, 2013). Nevertheless, there is significant room for improvement. Using EU social funds, for example, can be a great way to promote new companies whose goal is to help failed entrepreneurs¹⁸. Using such grants may empower new entrepreneurs with the social goal of reducing the stigma of failure, and may expand projects such as FailCon¹⁹(Shakesby, 2013).

Another action that has to be taken is to

divide credit scoring between cases of personal debts and cases of debts owned by legal entities (ibidem):

today the two cases often overlap, since entrepreneurs whose company is going bankrupt use their personal properties as collaterals for banks’ loans. This means that, in case of bankruptcy, their livelihoods are directly affected. Consequently, failure and a fresh start are not a viable option as the person would lose all his/her belongings. This kind of personal tragedy is getting more and more common as the crisis unfolds throughout Europe.

To overcome the issues related to this stigma, ThinkYoung’s model of breaking down the issue into 4 sub-variables may significantly help, since detaching social issues from personal and institutional ones (albeit being deeply connected in reality) can contribute to solving one issue at the time. This applies as well to policies aiming at applying the American Silicon Valley models as-they-are, without a proper understanding of how much cultural assumptions and the lack of social security for those who fail matter.

In line with the goal of the EU project “Europe 2020”, solving the stigma is central: by applying Landiers’ model (2004), lowering the stigma will boost innovative and visionary entrepreneurial projects, as young people will feel more comfortable with the idea of starting risky projects and in addition will keep trying in spite of failure.

Ultimately, this will lead to new products and services.

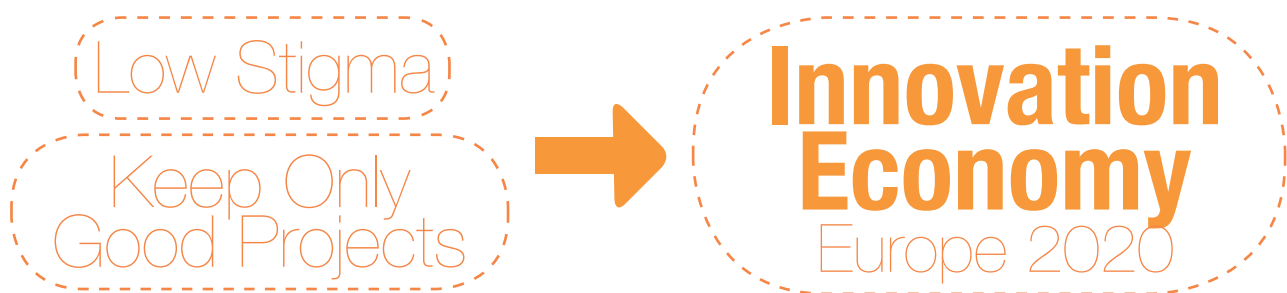


Figure 12 - Landier's model applied to Europe 2020²⁰

Managers and decision makers can further benefit from policies shaped to overcome the stigma of failure. The ability to discern how much failure depends on luck and how much on the lack of personal abilities or personal mistakes is a key requirement for good leaders. Those who are able to embrace failure in an analytical and smart way can improve their ability to better discern luck and ability, thereby increasing their probability of success. This process leads to the idea of celebrating losers and entrepreneurs in general as key social actors, therefore counterbalancing the myriad of negative information received by prospective entrepreneurs. Learning to fail is equally important:

It would help to create areas in which young people can fail safely and learn that there is not a single way to do things right, as often taught in school (Curavic, 2013).

Eventually, learning about the existence of and how to deal with venture capitalists may significantly help to reduce the scarcity of capital in Europe.

The gap between the youth's perception of failure and the reality has to be exposed.

Young people do not perceive somebody who has failed as less professional, less capable, or less trustworthy. As the survey's open questions have shown, young Europeans want to know more about the circumstances that lead to bankruptcy before judging a failed entrepreneur. However, they are reluctant to risk exposing themselves as having experienced failure because they fear this might harm their reputation.

As the chief thinker of ThinkYoung, Andrea Gerosa, reported in the Fail2Succeed conference of December 2013, entrepreneurship seems to the majority of people too often like an insurmountable mountain. The very day a European decides to climb that mountain, he/she realises that he/she has no direct experience of anyone who may have ever tried to reach the top, has no equipment, has no idea what a fall may lead to, and, on top of that, has no idea how to stop a fall. As a result, the most likely outcome is that he/she will not climb the mountain despite being curious about the view at the top.

“For many years, failure remained a taboo issue for entrepreneurs and policymakers alike, especially in Europe. [...] We come across countless stories that place failure at the core of the entrepreneur's experience. To be innovative entrepreneurs are told to internalise the Edisonian mantra of ‘I have not failed. I've just found 10,000 ways that won't work’. They are told they must not only celebrate success, but also expect and welcome failure, to fail early and often.” With these words, we started our Fail2Succeed project many months ago. Today, they still embed the truest spirit of this project.

6.1 Acknowledgments

This campaign, report, and survey all have been an ambitious project that started in 2012. Thanks to the first researches of Elena Georgalla we have been able to quickly grasp the main issues surrounding the stigma of failure. Luca Selva has followed the project since the very beginning and has played a key role, and without him we wouldn't have been able to succeed. Thank you. Giuditta Bassous has been my Northern Star during the whole project: I would have got lost without her help during the toughest moments. Christopher Moore has always helped me to connect the dots and manage the external relations. Gracias.

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Lastly, I would like to thank Andrea Gerosa for his trust in me, for his help throughout the project and for his great stories: the best way I have learnt to turn a failure into a great success.

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Curavic M, European Commission, DG Enterprise and Industry

Shakesby T, European Commission, DG Market

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7.3 Notes

DATA

- 1227 valid answers;
- 31 questions;
- Age: 18 to 35 years old;
- Country of residence: EU28 plus Norway and Switzerland;
- Survey conducted from 22/10/2013 until 24/11/2013 in English.

POPULATION SURVEYED

- The vast majority of respondents had entrepreneurial experience, direct or indirect
- Only 50% experienced failure, either directly or indirectly;
- Occupation:
 - 50% student;
 - 40% employed (either full time or temporary);
 - 6% self-employed;
 - 4% unemployed;
- Degree obtained: 65% had at least a bachelor degree;
- Respondents cover the whole spectrum of fields of specialisation, although business and economics were the highest;
- Country of residence:
 - Belgium and Italy were over-represented due to ThinkYoung's location and partners' network.
 - All the other countries' quotas are respected
- Gender quotas are respected;
- Background information:
 - Location: more than 50% lived in a big city, with more than 500 thousands inhabitant
 - More than 50% had parents who did not graduate from university.

7.4 Survey Data

¹ “How to Get a Job at Google”, The New York Times, February 22nd 2014, http://www.nytimes.com/2014/02/23/opinion/sunday/friedman-how-to-get-a-job-at-google.html?_r=0

² Curavic M, European Commission, DG Enterprise. Conversation with the author in autumn 2013. Hereafter quoted as Curavic, 2013.

³ These may include involvement of personal belongings as assets to pay back debts or losing civil rights connected to these offenses

⁴ The vast majority of these “national champions”, as they were nicknamed, have been dismantled during the implementation of the European Single Market from 1992 onwards

⁵ Lately, this clear division has started fading (see e.g. Willke & Willke 2012)

⁶ The United States are the only Western country, with Japan, envisaging the death penalty

⁷ If not specified otherwise, this section is based on Shakesby T, European Commission, DG market. Conversation with the author in autumn 2013. Hereafter quoted as Shakesby, 2013

⁸ Chiefly commercial banks

⁹ From the speech given at the Fail2Succeed conference at the European Parliament on December, the 18th 2013

¹⁰ To prevent and repress fraudulent bankruptcies is of key relevance to restore the image of those who failed honestly

¹¹ Most of these insights are to be linked to Curavic 2013 and to Baldassarri S, European Commission, DG Enterprise and Industry. From the speech given at the Fail2Succeed conference at the European Parliament on December, the 18th 2013

¹² 26% compared to 16% of respondents who have chosen “good” or “very good” at question 8

¹³ 54% compared to 40% of respondents who have chosen “positively” or “very positively” at question 15

¹⁴ 56% compared to 46% of respondents who have chosen “A” at question 11

¹⁵ Character A was defined in the survey as someone who went bankrupt with no criminal charges and wants to restart

¹⁶ Country of residence is the variable considered in the whole report.

¹⁷ This chapter was written by Santiago Robles Monsalve

¹⁸ The project has been just launched so it is necessary to wait for the end of 2014 in order to see if any company of this kind will be established

¹⁹ The FailCon is a series of conference, hosted worldwide, gathering entrepreneurs who have failed and willing to share their experiences. <http://thefailcon.com/>

²⁰ This specific intuition came in first place from former ThinkYoung researcher Vitiello S



The Campaign

www.fail2succeed.com

Over the years, we at ThinkYoung have reached the conclusion that cultural barriers, such as the stigma of failure, need to be overcome in order to boost youth entrepreneurship.

We are convinced that entrepreneurs, whether prospective or experienced, are facing a mix of both social and institutional pressures that cast a shadow over their future entrepreneurial activities.

For this reason, we launched the campaign "Fail2Succeed" with the goal of changing the perception of business failure and of harmonizing the bankruptcy legislation at European level.

The campaign consists of:

- a European survey
- an audiovisual study
- the mapping of all the European initiatives on failure
- a series of conferences to be held in 2014
- a policy proposal for the European and national institutions.

Core

Survey on the stigma of failure in Europe, conducted during November 2013. 1227 valid answers, 28 EU countries plus EFTA (mainly Switzerland and Norway), 18-35 years old. One language (EN), survey conducted online and in person (the latter in Brussels area), 31 questions.

Population surveyed

The vast majority of respondents has entrepreneurial experience, albeit indirect, but only 50% have experienced failure, directly or indirectly;

- 50% students, 40% employed (either full time or temporary), 10% self-employed or unemployed;
- 65% have at least a bachelor degree;
- All fields of specialization, although business and economics are over-represented;
- Respondents living in Belgium and Italy are slightly over-represented. All the other countries' quotas are respected. Gender quota are respected;
- More than 50% live in a big city (with more than 500 thousands inhabitants) and their parents did not graduate from university.

Team members

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 Research team: Daniel Fisher, Nicolas Müller-Geoffroy, Simone Vitiello
 Promotion team: Emmanuelle Declève, Eleonora Pace, Spiridoula Sermentzeli, Giulia Volpi

With the support of



Think Young
We lobby for young people

ThinkYoung is a think tank that gives youth a voice. ThinkYoung engages young Europeans by providing a platform for debates with the decision-makers within Europe regarding ongoing issues.

Successfully lobbying on behalf of European youth since 2007, ThinkYoung now has offices in Brussels and Geneva with another opening in Hong Kong in November 2013.

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Survey data

