The Anatomy of Business Failure. A Qualitative Account of its Implications for Future Business Success

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Abstract

The aim of the present study is to contribute to the empirical literature on the consequences of Business Failure (BF), resorting to qualitative methods in order to better understand the aftermath of BF. Semi-structured interviews were used in order to collect data, which were later transcribed and analyzed using Interpretative Phenomenological Analysis. Evidence gathered based on the experience of six entrepreneurs (three from the north of Europe and three from the south) showed that previous failure impacted individuals strongly. Such an impact appears to be shaped by the individual’s experience and age, and their perception of blame for the failure. However, for these particular individuals, it does not seem to be affected by the size of the project or the amount of financial loss. An array of moderator costs was identified, ranging from antecedents to institutions that were present in the individual’s lives. The outcomes are directly relatable to the failed experience by the individual. It was also found that the failure had a significant effect on the individual’s career path.

Keywords: business failure, consequences; interpretative phenomenological analysis; learning from failure

JEL Codes: G33, L26, M21
1. Introduction

Business Failure (BF) is a constant in today’s business world, being considered an essential and significant part of new business ventures (Ucbasaran, Shepherd, Lockett and Lyon, 2013). Although there is extant literature on the topic of the costs bared by the entrepreneurs, it is undeniable that BF is essentially a learning process (Cope, 2011).

Although BF is hard to define, all definitions relate to the same significant event in the lives of organizations and individuals – the defining moment that unfolded over time where the survival of a company ends, creating losses for investors and creditors alike. How that moment is determined varies widely among authors who have analyzed the phenomenon (Ucbasaran et al., 2013).

There is considerable debate regarding the narrative of the creation and performance of entrepreneurial efforts, but failure has received much less attention (Mantere, Aula, Schildt and Vaara, 2013). The literature has thus far focused on predicting the failure of healthy firms, mainly through prediction modelling using financial ratios (Altman, 1968); the discovery of the main determinants that lead to such an event (Altman, 1968); and the consequences that ensue from the failure. While the first two research areas have received increasingly more attention in the last two decades, focus on the consequences is still lagging behind.

This article aims to contribute to the scarce empirical research on the outcomes of BF for individuals (as emphasized in Ucbasaran et al. (2013)). Many researchers highlight the need to analyze the aftermath of BF, specifically addressing: how the individual progresses and eventually develops new ventures (Mantere et al., 2013); how individuals change business behaviors and practices in light of a failure (Cope, 2011); and what is the effect of previous failure on the individual’s future career path and/or decisions to embark on subsequent ventures (Ucbasaran et al., 2013). The gap includes the learning process and all the actions and changes that are born from it. Questions like “How can these different outcomes be explained? What is it about certain individuals, business failures, and/or the nature of the stories that obstruct - rather than generate - action?” (Ucbasaran et al., 2013: 197) are yet to be answered and require a better understanding.

The study thus intends to contribute to the empirical literature on the consequences of BF by developing insights into the consequences of BF and the reasons/conditions that enable entrepreneurs to succeed or otherwise hamper their success after a business failure. In particular, we will focus on currently successful entrepreneurs who have failed in the past and
try to understand the consequences of their past business failure in the creation of new business ventures. Although many consider failure a pathway to success due to it being a learning experience (Cope, 2011), there is a lack of research dealing explicitly with prior failure as a condition for success or other considerations that reflect long-term orientations for the individual (Ucbasaran et al., 2013).

Qualitative research is key to understanding the “how” of the phenomenon, especially when trying to understand the development of the individual within his/her context (Yin, 2009). Thus, personal accounts and narratives are essential to understand the process, although it has only recently been applied to this field (Mantere et al., 2013). Specifically, we employ the Interpretative Phenomenological Approach (Smith and Osborn, 2007), using a set of six selected case studies of entrepreneurs from several countries.

The present study is structured as follows. In the next section, we present a brief literature review on business failure. Then, the methodology of the study is detailed in Section 3. Section 4 presents and discusses the study’s results. Finally, in Conclusions we summarize the main outcomes of the research.

2. Literature Review

2.1. Defining Business Failure

Business Failure (BF) is a not a simple concept to define. Many authors (e.g., (Deakin, 1972; Chen and Williams, 1999) do not feel the need to define the concept, while others (e.g., Dimitras, Zanakis and Zopounidis, 1996; Everett and Watson, 1998; Bell and Taylor, 2011), present a wide array of definitions in order to be as comprehensive as possible.

An analysis of 103 articles on the topic showed that besides the studies that do not provide an explicit definition of BF (72 articles, that is 69.9% of the total), those that explicitly give a definition focus on one or several dimensions of BF, most notably: bankruptcy, business closure, ownership change, and failure to meet expectations. This article considers that BF occurs when a business closes, either for financially-related reasons or willingly, which in the latter case can be due to the owners not achieving their expectations (e.g., not enough current return, no growth expectation, poor performance, etc.) in contrast to personal reasons (e.g., retirement, relocation, family issues, etc.).

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A thorough search on Scopus (http://scopus.com), using the keywords ‘business failure’ or ‘start up failure” or “company bankruptcy”, in the field of Business Economics resulted in 150 articles, of which 15 proved to be mostly unrelated to our subject. A second screening excluded articles that either could not be obtained or proved to be tangential to our research, reducing the literature sample to 105. Out of the sample, 83% were empirical studies, 10% were discursive in nature, and 7% were revisions of the state-of-the-art.
2.2. On the consequences of business failure

Business failure (BF) occurs over several distinct phases, usually contiguous to a significant event that is considered the tipping point of ‘failure’. The process includes the analysis of the conditions and series of events that lead to BF. It also considers the post-failure situation, focusing on the consequences of going through such a stressful situation.

The relevant literature can be categorized into three main research streams: 1) Business Failure prediction through modelling; 2) Determinants or causes of Business Failure; and 3) Consequences of Business Failure.

About half of the studies on BF analyze the determinants of failure, with 39% trying to predict failure in organizations through mathematical models. The aftermath and outcomes of BF is only analyzed in 17% of the studies. To better understand the consequences of BF, researchers draw on many theories from the field of psychology, such as Attribution Theory (Mantere et al., 2013) and grieving (Bell and Taylor, 2011), in order to determine what each individual goes through when they experience a BF. Others look at specific conditions of BF that might affect the impact of the costs, such as applying the personal bankruptcy law in a given region and the asset protection it provides (Hasan and Wang, 2008), and factors associated to Institutional Theory. Based on Ucbasaran et al.’s (Ucbasaran et al., 2013) work, it was possible to summarize the main theoretical contributions that frame this stream of research (see Table 1).

Table 1: Theoretical frame of the consequences of BF research stream

<table>
<thead>
<tr>
<th>Time-Frame</th>
<th>Factor</th>
<th>Theoretical approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aftermath</td>
<td>Social Costs</td>
<td>Institutional Theory, Stigma, Social Exclusion and Network Theory</td>
</tr>
<tr>
<td></td>
<td>Psychological Costs</td>
<td>Attribution Theory, Personality Theory</td>
</tr>
<tr>
<td></td>
<td>Financial Costs</td>
<td>Bankruptcy Law and Institutional Theory</td>
</tr>
<tr>
<td>Sensemaking and Learning</td>
<td>Grief, emotions and learning from failure</td>
<td>Psychology Theory, Sense making and Attribution Theory</td>
</tr>
<tr>
<td></td>
<td>Management of Costs</td>
<td>Problem-focused and emotional-focused coping, Personality Theory</td>
</tr>
<tr>
<td>Outcomes</td>
<td>Cognitive Outcomes</td>
<td>Cognition and Motivation Theory, Cognitive Bias</td>
</tr>
<tr>
<td></td>
<td>Behavioral Outcomes</td>
<td>Personality Theory, Labor Economics and Sociology of Careers</td>
</tr>
</tbody>
</table>

Source: Adapted from Ucbasaran et al. (2013).

When widening the view, Figure 1 draws the theoretical framework for studying BF, in particular the consequences of BF. As illustrated, BF is a continuous process with key
moments that require further study. The determinants of BF are intimately related with the consequences and the outcomes, as well as the psychological processes involved, and should not be separated from the individual, given the cognitive, behavioral and personality theories involved – all leading up to a key stage: rising from failure to achieve success.

Most of the studies analyzing the consequences of failure are focused on the individual. This may be justified by the fact that such individuals are either the survivors of the failure or the ones that support most of the consequences. In this vein, it comes as no surprise that most of the research done in this field is based on theories from psychology (e.g., Shepherd, Wiklund and Haynie, 2009). This specific literature stream usually considers failure a traumatic event (Ucbasaran, Westhead and Wright, 2009), where the individuals related with the failure gain a series of costs and benefits during the following period. Researchers feel that it is important to understand the different phases that one goes through after the trauma, which can resemble, in many ways, the death of a family member (Bell and Taylor, 2011).

![Figure 1: A theoretical framework for studying the process of business failure for an individual](Source: Authors’ compilation.)

Ucbasaran et al. (2013) divide the consequences of BF into three main timeframes: the Aftermath – the instant consequences that are supported after the event; Sense-making and the learning process – an evolving process that starts and takes place for an variable amount of time after the failure; and the Outcomes – the long-run outcomes for the individual affected by the experience.

In the first stage, Aftermath, Ucbasaran et al. (2013) refer essentially to the costs, which they basically classify as financial, social and psychological. The financial costs of failure may
imply the loss of a main source of income, with the possibility of personal debt (Cope, 2011; Bruton, Khavul and Chavez, 2011). These costs might be increased or reduced by several factors, such as the entrepreneur’s current investment portfolio or the ease which they may have in obtaining new income sources (Ucbasaran et al., 2013). Another factor is personal asset protection related to the bankruptcy laws that exist in some regions, as Hasan and Wang (2008: 5) explain:

“Bankruptcy exemptions allow failed entrepreneurs to shield part of their assets, thereby functioning as a cushion against the negative consequences of business failure. This characteristic of the US personal bankruptcy law system makes it a very important for entrepreneurship.”

When considering the social costs, they can understandably be devastating to the individual, both in personal and professional terms (Ucbasaran et al., 2013). Drawing knowledge from Institutional Theory and Network Theory, the authors in this field argue that relationships suffer through this process, leading to stigma and negative discrimination towards future professional endeavors (Ucbasaran et al., 2013).

An example of a factor that increases the social cost of failure is given by Kirkwood (2007: 20), when he concludes that a culture with Tall Poppy Syndrome can be more unforgiving of high achievers who fail:

“Thus, there may be two different types of reactions to a fall - depending on whether it was considered to be an organizational failure or the entrepreneur's personal failure. Cases in which the entrepreneur was seen to be the 'cause' of the failure may be perceived more harshly than others.”

The media also often attributes BF to mistakes made by the managers (varying from region to region), being mostly linked to the impact and consequences the failure generates on its environment – all leading to a strong stigma (Cardon, Stevens and Potter, 2011).

Of the 389 failure accounts in our dataset, 331 contained statements on the impact of the failure being reported. The most frequently reported impact of failure (125 accounts, 38%) was the development of a sense of stigma around entrepreneurs who had experienced failure. One account stated that “Failure leads to exile and an abrupt end to one's career path.”

The other costs considered in this framework are the psychological ones. These costs can be either motivational or emotional (Ucbasaran et al., 2013). Indeed, failure can be emotionally very stressing, creating negative emotions that are “inextricably linked to its complex social cost” (Cope, 2011: 611). Cope (2011) presents empirical evidence where shame and embarrassment arise in failed entrepreneurs, derived from their strong commitment to the business stakeholders. These negative emotions often lead to withdrawal and, eventually, to
loneliness, possibly impacting so strongly on the individual to the point of interfering “with the individual’s allocation of attention in the processing of information” (Shepherd, 2009: 320).

An example of an intensifier of psychological costs which is presented by Cannon and Edmondson (2001) is the individual’s own personal life experience and early socialization processes. The authors argue that parents often shield their siblings from harm while schools reward students who committed fewer mistakes, creating control-oriented behavior rather than learning-oriented behavior that leads to a significant decrease in self-esteem when focusing on one’s own failure. This ultimately leads people to engage in activities that improve their self-esteem rather than potentially damaging ones (that is to say, riskier situations of failure).

Motivation may also take a deep hit with failure, creating “a sense of helplessness, thus diminishing individuals’ beliefs in their ability to undertake specific tasks successfully in the future and leading to rumination that hinders task performance” (Ucbasaran et al., 2013: 179). However, it may also serve as a boost for future endeavors as a compensation for missing a self-defined goal (Ucbasaran et al., 2013).

Ucbasaran, Westhead, Wright and Flores (2010) conclude that both serial and portfolio entrepreneurs were less emotionally attached to their businesses, being less likely to have an adjusted optimism bias and having more resistance to psychological costs. Ucbasaran et al. (2013: 180) also mention that entrepreneurs displaying “learned optimism” are prone to make sense of failure in a more beneficial way, motivating them to engage in future entrepreneurial activity:

“Individuals displaying learned optimism are likely to see the cause of a problem as being transitory and narrow in its effects. Consequently, optimistic individuals are more likely to treat adversity as a challenge, transform problems into opportunities, attempt to adapt/develop skills, maintain confidence, rebound quickly from setbacks, and persist […]”

The sensemaking and learning dimension highlights the social-psychological process associated with failure, which might be framed by grief (Bell and Taylor, 2011) and attribution theory (Mantere et al., 2013), as well as the positive learning from experience (Cope, 2011).

An important article to consider here is that of Mantere et al.’s (2013) on narrative attributions of business failure, where the authors attempt to reconstruct and define the determinants of failure through the attributions of different point of views related to a single situation, thus analyzing how the individuals make sense of reality. Through an inductive analysis, the study categorizes 7 distinct categories of attributions: catharsis, hubris, betrayal, mechanistic, zeitgeist, nemesis and fate. The authors ultimately relate these attributions with the
sensemaking and recovery process, concluding how they are “driven by the cognitive and emotional needs of organizational stakeholders to maintain positive self-esteem and recover from the loss of the venture” (Mantere et al., 2013: 470).

As Shepherd (2009: 320) highlights, the experiential nature of learning from one’s mistakes is also present in owners of businesses that failed:

“For the self-employed, learning from business failure occurs when they can use the information available about why the business failed (feedback information) to revise their existing knowledge of how to manage their own business effectively (self-employment knowledge) - that is, to revise assumptions about the consequences of previous assessments, decisions, actions, and inactions.”

However, the author also clearly establishes that failure induces a process of grief, creating an obstacle to learning from the event experienced (Shepherd, 2009). This is allied with the need to make sense of the situation, as it is “an interpretive process [that] requires people to assign meaning to occurrences … and involves ongoing interpretations in conjunction with action … It [sensemaking] involves both the cognitive and emotional aspects of the human experience.” (Ucbasaran et al., 2013: 184).

The last dimension is related to the long-term Outcomes for the individual due to the experience he/she had with the failure, its costs and how he/she made sense of them (Ucbasaran et al., 2013). This includes how much the individual learned and how the individual changed their business practices. In Cope’s (2011: 617) words:

“[…] the importance of failure lies in its ability to challenge current practices by drawing attention to previously overlooked inconsistencies; fuelling an “unfreezing” process in which old ways of perceiving, thinking and acting are shaken and new ways accommodated. The long-term effects include significant cognitive alterations, affecting the level of confidence and optimism; and behavioral changes, exemplified by the subsequent business started by failed entrepreneurs – one can assume that it might result in a better performance due to the previous learning experience.”

Deriving from cognitive and behavioral theories, Politis and Gabrielsson (2009) conclude in their work that experience with business closure is associated with more positive attitudes towards failure. Basing on the Experiential Learning Theory, the authors argue that “experience from closing down a business seems to lead to a more positive attitude towards failure by rendering existing behaviors and routines inadequate, which in turn can trigger change in underlying values and assumptions” (Politis and Gabrielsson, 2009: 376).

Cardon et al. (2011) further explore the impact of failure on the future career path of entrepreneurs, finding that some prefer to continue to engage in entrepreneurial activities while others opt for jobs in more established companies.
3. Methodology

The method of qualitative research employed in this study consists of a set of case studies, using the methodology design advanced by Yin (2009), based on a collection of personal accounts from individuals that meet pre-defined criteria through face-to-face interviews, using the Interpretative Phenomenological Analysis (IPA) (Smith and Osborn, 2007). The IPA approach has been used before in the research on ‘BF Consequences’ (Cope, 2011) and enables an introspective view of experiencing failure. Cope’s (2011: 608) use of interpretative phenomenological research is justified with “the strength of a qualitative research design such as this lies in its capacity to provide situated insights, rich details and thick descriptions. Richness is provided by paying close attention to both context and process […]”. This methodology allows the researcher to empirically achieve a better understanding of the emotional consequences of failure and its relation with the learning process.

For the purposes of this study, the main advantage of this methodological approach lies in the possibility of thoroughly investigating an individual and his/her progression over time, within a real-life context (Yin, 2009) – which, as we have determined from the framework (cf. Figure 1), is fundamental for the appropriate analysis of the experience.

The analysis will start with an account of the BF process, trying to extrapolate what the individual considered were the determinants of the failure. The research should therefore include a full overview of the BF. The analysis will then focus on understanding the impact of the aftermath, in terms of the financial, social and emotional costs (Ucbasaran et al., 2013). This includes not only identifying the moderators of the cost, but also an effort to identify how the individual managed to overcome those costs, acting on the assumption that they are closely related to the learning process (Cope, 2011). Since this is reported through a personal account, it is also part of the Sensemaking Process (Cope, 2011). In a following stage, we will focus on the Sensemaking Process, Learning Process and the Outcomes of the individual.

Particular attention should be paid to the psychological processes that influence learning, such as grieving (Cope, 2011), narrative attribution (Mantere et al., 2013), and loss of orientation strategy (Shepherd, 2009). It is also relevant to understand whether the individual experienced this phenomenon, and how it was dealt with on a personal and professional level.

Only after the previous aspects have been established is it possible to analyze the actual learning process, which will essentially rely on the individual’s own perception of his/her
progression, implying that the information should be treated as cognitive (Baumard and Starbuck, 2005).

Lastly, the outcomes of the BF should be analyzed. Although they may not be always fully explicit, they can be derived from the options the individual exemplifies, for instance, behavioral changes can be deduced when he/she shows a more risk prone/adverse action in relation to the previous failure. Figure 2 summarizes the main steps and the guideline research questions of the empirical work.

![Figure 2: Operationalized framework for studying BF experiences](image)

To obtain a valid data set, the following criteria were defined with which all submitted cases had to comply in order to be considered for this study:

a) The individual must be an entrepreneur, being directly involved in the creation of both the failed and the successful business;

b) The individual must have been closely related to a business failure situation as defined in Section 2, preferably with one or several of the following conditions:

i) Part of the venture’s founding process;

ii) CEO or other high management level position;

iii) Personal or family-related ownership stakes in the venture;

c) The failed business must also follow one or several of the following conditions:
i) There must have been significant losses associated with the failure (e.g., initial round funding, years of dedication);

ii) The reason for closure must not be personal (e.g., retirement, as mentioned by Watson and Everett, 1996);

d) The successful business should have a significant commercial success with a considerable profit rate, solid enough to support the founders or show sufficient recognized potential growth.

For this study, six data collection interviews were conducted with successful entrepreneurs from two main regions in Europe, specifically the Nordic region (with Norwegian and Danish representatives) and the South of Europe (with Portuguese representatives) (see Table 2).

Table 2: Case Study Participants Basic Information

<table>
<thead>
<tr>
<th>Case</th>
<th>Name</th>
<th>Nationality</th>
<th>Age</th>
<th>Education Level</th>
<th>Business Area of BF</th>
<th>Year Started</th>
<th>Year Closed</th>
<th>Interview Date</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Paulo</td>
<td>Portuguese</td>
<td>49</td>
<td>Master Degree</td>
<td>Leisure Activities</td>
<td>1998</td>
<td>N/A</td>
<td>27/02/2014</td>
<td>2 h</td>
</tr>
<tr>
<td>2</td>
<td>Mikko</td>
<td>Finnish</td>
<td>27</td>
<td>Bachelor Degree</td>
<td>Food Services</td>
<td>2008</td>
<td>2009</td>
<td>11/03/2014</td>
<td>1 h</td>
</tr>
<tr>
<td>3</td>
<td>Brian</td>
<td>Danish</td>
<td>26</td>
<td>Bachelor Degree</td>
<td>Food Cutlery</td>
<td>2005</td>
<td>2006</td>
<td>25/03/2014</td>
<td>1 h</td>
</tr>
<tr>
<td>4</td>
<td>André</td>
<td>Portuguese</td>
<td>35</td>
<td>Master Degree</td>
<td>Automation Engineering</td>
<td>2007</td>
<td>Non-Defined</td>
<td>26/05/2014</td>
<td>45 m</td>
</tr>
<tr>
<td>5</td>
<td>José</td>
<td>Portuguese</td>
<td>48</td>
<td>MBA</td>
<td>Sound Engineering</td>
<td>2007</td>
<td>2013</td>
<td>02/06/2014</td>
<td>50 m</td>
</tr>
<tr>
<td>6</td>
<td>Marius</td>
<td>Danish</td>
<td>25</td>
<td>High School</td>
<td>Medical/Cosmetics</td>
<td>2007</td>
<td>2013</td>
<td>06/06/2014</td>
<td>50 m</td>
</tr>
</tbody>
</table>

To obtain these case studies, extensive contacts with potential candidates were made through personal networks, social networks, references and Internet research. In total, the research was advertised through several European social networks of entrepreneurs, 12 personal reference requests plus 2 academic research reference requests. This initial effort resulted in 19 potential case studies, of which 13 contacts were followed through. Of these 13 contacts, 4 did not respond and 3 failed to pass the pre-verification phase. The final result yields the six case studies presented in Section 4, composed of individuals that generously agreed to participate in this study.
After an initial contact and agreement to participate in the study, a pre-screening meeting was scheduled, followed by the data-gathering interview where additional information was required to prepare the interview script. The interviews took place during the months of February, March, May and June 2014 in various physical locations, such as company headquarters and college campuses, but also via Skype. They were processed and analyzed during the months of April and June 2014.

4. Results

4.1. How the individual progresses and eventually develops new ventures

The first aspect considered was what follows a Business Failure, in particular how the individual progresses and eventually develops a new venture. Related to this topic, a cost-benefit trade-off analysis seems relevant.

The benefits seem to be truly significant for the individuals, even when costs are not. The individuals also naturally tend to focus on the benefits, telling the lessons learned when they were asked for the narrative – particularly visible with Brian, André and Marius.

Furthermore, there are key events that can be directly related to the creation of the future successful business – Brian met his future business partner who had acted as a mentor of his failed project, Paulo decided to go back to college where he found his next opportunity, and Marius kept the same partner in all of his 4 companies. Business connections are known to be synergic, thus it is no surprising to find that the effect continues even when amidst failure.

It is worth noting that some of the successful projects were already being started while the failures were taking place, most specifically at the end. Mikko was already quite involved in the first steps of his subsequent successful business when he sold the family business; and Marius was preparing a crowdfunding campaign when he closed his first company.

Another dimension to consider after the failure is how the individuals deal with the costs. As previously discussed, none of the cases present overwhelming financial losses, meaning that the individuals required minimal effort in order to overcome them. This was mainly attributed to institutions that served as moderators (e.g., governments, family). The reduced financial costs generated relatively minor social and psychological repercussions (Ucbasaran et al., 2013).
Still, a few actions taken to restore normality to the individuals’ lives are discernable. Paulo admitted to cutting back on his family budget, taking fewer vacations. He also went back to college, an action that could surely be connected to a sensemaking process. Actions during the failure are also visible, very likely an anticipatory sign of grief (Shepherd et al., 2009). These actions are visible in the projects that are described as “fading”, for instance, when André claimed that he focused back on his day job or when Marius admits to have focused on creating new businesses rather than just investing in one.

Focusing on the psychological costs, they were visible for some of the younger entrepreneurs but the serial experienced entrepreneurs appeared minimally affected. Mikko and Brian admitted to have suffered a significant amount of stress, while Marius felt that it would have been much worse had he not created other successful ventures by the time the first one failed. Paulo reduced his “post-failure depression” to a 24-hour period, while José merely admitted to some frustration for nearing loss immunization. André rationalized the failure as a calculated risk and is proud of it for being a rich experience. The fact that both André and Marius’s project faded away could be pivotal for their emotional reaction, in particular in the case of Marius, since he admitted his attachment to the failed company.

It is also arguable how opportunity costs are smaller when the entrepreneur is younger. Paulo’s narrative focused much more on the family that depended on him, while Marius’ focus was on where his professional life would take him.

It is also very easy to identify the benefit of certain skills gained during the BF. For example, Marius admitted that he found it very useful to have learned how to set up a company in the first business and Mikko claimed that he learned how to manage a financial budget.

These skills seem to be more prevalent in younger individuals, as would be expected, since they have much more to learn. André recognized this, stating that the professional experience stemming from entrepreneurial business or established business is similar, only the risk involved changes.

Similarly to the costs/learning relationship, a small-scale business investment does not necessarily mean that it does not yield important lessons for the individual. Brian claimed that he learned a lot in terms of working with teams, considering that it was good that he learned it with an investment of €7.000 rather than a much higher amount. This also includes time investment, with Marius and André both admitting to have gained a great deal from a relatively small investment of time when compared to their other projects.
An unexpected observation was made when half of the cases explicitly or implicitly declared that failing was a very stressful situation, and that the moment the company closed was somewhat of a relief.

Mikko spoke of “seeing the light at the end of the tunnel” during the stressful demise, claiming that he was willing to start new projects and that he had taken a small vacation afterwards. Brian reported alleviating overall stress and generally feeling better after closing the project, at a time when he admitted to feeling quite ill due to all the pressure.

Marius described vividly how he felt immediately after closing his first company, without however negative feelings:

“Actually, when we said to each other “Hey, okay, it’s over…”… it was a big relief. It was like taking the biggest backpack off your shoulders … it was a really great feeling, I can so easily remember where we were sitting, what the weather was like and the feeling in my body. It was a crazy feeling, only kind of positive somehow.”

His detailed description is revealing of the importance of the event and the backpack actually illustrates perfectly the figurative burden off his shoulders.

It is interesting to see other individuals that were not as lucky to have those kinds of moments, where the connection was simply cut off. Paulo was still in legal court battles at the time of the interview, a decade after the BF. It is clear that he is tired of dealing with the issue. José also stressed the fact that he had expected to shut down his venture much faster than it actually happened. He admitted that he wanted to be as fast as possible in order to cut losses, but he faced a lot of slow-moving stakeholders that delayed the process several months.

Of course, the situations illustrated here do not have significant follow-up costs, like many entrepreneurs with personal debt issues and the lack of a source of income. Still, it might be relevant in removing the uncertainty that is so stressful for many.

4.2. How individuals change business behaviors and practices in light of a failure event

In business, learning usually means a change in “how things are done”. In the case of the defined framework, these changes are usually most visible in the longer-term outcomes.

In terms of cognitive changes, the existing literature focuses on optimism (Ucbasaran et al., 2013), an aspect this study does not specifically address. Instead, it focuses on other cognitive changes, especially on the perception the individuals have of themselves, entrepreneurship and other life-related topics that were brought up in the non-rigidity nature of the interviews. The behavioral literature focuses on the intention of continuing to launch ventures (which is a pre-
requisite for this study) and changes/improvements in business practices, which is also addressed in the course of this study.

In light of this, several key points were identified that could support the current literature, add other relevant information and indicate further paths to better understand the phenomenon.

The main question lies is in what way do the individuals change their business behaviors and practices in light of a previous failure event – a process that turned out to be easily observable with clear links between the two different experiences.

For instance and as previously discussed, it is easy to associate Paulo’s values and the measures he took in his successful company with the betrayal he experienced in his failure. He does himself relate these aspects on some levels, such as in the attention paid to drawing up much more tightly written contract with the owners of his business to avoid litigation and ill intentions. Brian also claimed that he changed how he picked his teams, much as André said that he picked his partners in a very different way than when he started his failed project.

Marius also learned cognitive changes that shaped his behavior – he discovered that his motivation was affected by what he did. He does not like just focusing on developing a product without having business tasks, a feature that drove him to start new businesses and later conclude this about himself. However, his narrative progressed to another important behavior change, where he decided that he could not be running multiple successful businesses and he needed focus in order to produce better results, culminating in the closure of two of his projects and the launch of his most successful one.

A specific type of behavior worth analyzing is the individual’s actions with regard to risk after failure. While it is evident that these cases present a somewhat biased analysis for this factor, it seems clear that the individuals maintained the same attitudes towards prospecting and assessing new market opportunities. Even though they failed, they kept trying, with many reporting an increase in confidence. André, Brian and Marius also admitted that they have invested more of themselves and taken more risk in the projects, claiming to value more attitudes such as a “commitment”, “focus” and “100% in” within their projects.

Of course, these behavioral changes are also accompanied by significant cognitive change. As stated, confidence and self-awareness of their skill was repeatedly brought up by the interviewees. Brian and Mikko also said that knowing they can survive failure is important, most certainly increasing their resilience. This might indeed support Shepherd’s (2009)
conclusion that being aware of these normal negative emotions resulting from failure can in fact reduce the stress associated with it.

André is proud of his failure and Marius calls it a unique learning experience. This outlook is mostly highlighted by the younger individuals, whereas the older entrepreneurs tend to focus much less on this dimension, although some changes in their behavior are still visible (perhaps to lesser degree), as previously discussed. For instance, Paulo decided to no longer work for the Portuguese market and ended up with a Portugal-based international company without a single Portuguese client; and José admitted to have never used venture capital money again, stating he would be much more careful if he used this kind of financing method in the future.

4.3. The effect of previous failure on the individual’s future career path and/or decisions to embark on subsequent ventures

Regarding the effect that the failure has on the future path of the individuals, it is safe to say that it had a significant impact. The literature usually refers to changes in career path as a coping mechanism to overcome financial costs (Ucbasaran et al., 2013). Ucbasaran et al.’s (2013) study, however, does not have such a narrow view of career change (although one of the individuals admitted this applied in his case). It tries to identify smaller shifts in the entrepreneur’s progression, such as changing industries, changing roles and even investing in further education to achieve a different career path.

First and foremost, it should be noted that these cases present a biased view of how the careers may possibly progress – after all, by design, these are considered people who followed and became successful entrepreneurs.

But even within the entrepreneurial culture, differences and deviations can be found between success and failure. For instance, Paulo shifted from a low-tech venture to a full-fledged tech start-up, focusing mostly on research and development. This was fully intentional, as it was one of the reasons why Paulo went back to college, to afterwards engage in such a project with expectations of entering the international market.

In truth, all the interviewees changed their industry when they started new projects. Mikko shifted from food services to event management and Brian focused on entrepreneurship education. André preferred to stay on the path of his corporate job career and invested in the IT retail market, re-applying the knowledge he gained, taking advantage of opportunities detected previously and compensating for the costs of the failed venture. José also showed no indication
of continuing to invest in projects within the music equipment industry. In fact, he admitted that it was an extremely difficult industry to enter.

Marius presented an even clearer picture. He claimed that the failure helped him choose his professional career. The failed business was in medical/cosmetic products and the successful one in pure consumer electronics, but they do however share key traits – they both focus on a physical product with global potential. He added that it is exactly what he wants to do with his career and that the latter product is much more to his preference than the failed one. He also acknowledged that he identified and invested in his successful project based on the knowledge he gained with other businesses and the failed venture.

4.4. How can these different outcomes be explained? What is it about certain individuals, business failures, and/or the nature of the stories that obstruct - rather than generate - action?

An entrepreneur’s lifestyle is often considered a continuous iterative process. André appears to share this vision, when he claims that individuals that share these kinds of traits will try again until they are successful – only to later distance themselves and support new projects, by developing or investing in them. This progress is not always continuous.

Considering this sample, many individuals had to launch several projects until they achieved a desirable level of success. Marius owned 3 companies at a point, until he identified his current venture, deciding to separate himself from all other projects and focus on the one from which he foresaw the highest return. Paulo, after having businesses in the IT industry, real estate industry and leisure industry, decided to put his professional activity on hold to return to college in order to be able to start a different kind of company. Another example of how this progression is somewhat chaotic is the case of Mikko, who was already involved in his next project when the he was still tied to the failing venture. André kept working for the IT company for years while he gathered the required resources to launch his technological start-up. Context seems to influence the actions and decisions of the individuals in the short term, but a wider view shows that success can be achieved in spite of unfavorable environments, as it appears to stem from the nature of these remarkable individuals. These individuals found success most likely due to the characteristics they possess, such as resilience, favorable personal background to overcome the costs and, perhaps, a bit of luck.
Serial entrepreneurs offer the most evident insight into this, as the resilience they show lets them endure cost after cost, feeding their drive even when they actually achieve success. These individuals deserve a study dedicated only to them.

It should be noted that this study only focuses on individuals that successfully tried again to launch a business of their own after having failed previously. However, insufficient evidence can support or steer future research on a path to better identifying the factors that hinder or foster action towards future entrepreneurial efforts, either based on individual actions or originated from the context.

For example, as discussed in the section on financial cost moderators, all the cases had significant help from others or other sources of income that shielded them from more damaging costs. This could certainly be an important factor for their careers. It is also a rather poorly researched topic, since most of the institutional theory in business failure research focuses on bankruptcy law – the government, however, is not the only institution that affects the lives of the entrepreneurs.

The individuals’ cognitive traits and the changes they experience could also prove to be pivotal for the future outcomes. A good example is when Paulo firmly states that managing a business is what he likes, he wants to lead and to be the boss. He also shows great self-awareness when he admits that he is stimulated by unstable environments – a contrast with André’s case, who seems to be very risk averse but, nevertheless, manages to plan his career in accordance in order to avoid high exposure to the risk of failure.

Another important phenomenon occurs when Marius distances himself from the failure. He dwells on the fact that he had two other relatively successful companies when his first one was nearly shutting down, admitting that had he only focused on the one company that failed it would have been a “more personal failure”. He adds later that he was not sure he would have invested in his last and more successful business if he had not learnt “what to do and what not to do”, if he did not tried different things and projects or if he had only focused on one project. Also, of course, had he not created the first business, he would not have met his current partners who helped him create the successful company.

Still on the issue of factors that can generate or prevent action, a common important narrative point is related to how the business venture ends. The interviewees seem to value a decisive and fast closure, as the source of stress seems to derive more from “failing” than from the
actual “failure”. The contrast is also visible in cases that dragged out over time and passed from stakeholder to stakeholder, battling in procedural and legal disputes.

Even if the individual wishes to try again or keep the venture going (as previously mentioned, a possible method of anticipatory grief (Shepherd et al., 2009)), when the time comes to inevitably shut the business down, there is evidence that the faster it happens the better it is for the individual to move on – much like removing a bandage quickly.

5. Conclusions

The evidence gathered shows that previous failure impacts on individuals strongly. Such an impact appears to be conditioned by the individuals’ experience and age, and their own perception of blame within the failure. However, for these particular individuals, it does not appear to be affected by the size of the project or the amount of financial loss.

Moreover, certain antecedents, specifically, the involvement of institutions in the individuals’ lives, can significantly curb the costs suffered after the failure. Some case studies reported a feeling of relief when the failed business closed. It is possible that a quick cease of contact with the failure may be beneficial, in contrast to the case that endured long legal battles.

It was also found that all the individuals’ career paths were influenced by the failure, with some having a much more significant impact than others. Failure or failing were a pivotal moment in the lives of the participants in this study. Also, some individuals were already developing or had already developed their next full-time project while the failure occurred, having immediately changed focus afterwards.

Practical implications can be drawn from these conclusions. For young and aspiring entrepreneurs, their future ventures should be seen first as a learning experience and should be prepared with serious consideration for failure. They should adapt their expectations to the fact that, in case of failure, it is not a lifetime ban on success. It is possible to bounce back and the lessons that they acquired during the failure may prove very significant in the future. Evidence was also found on the development of key cognitive and behavioral changes that the individuals directly relate to the failure and are considered crucial for their current success. Other key aspects that influence success were identified from the previous failure, like meeting a future business partner or connection during the process.

With regard to the implications for institutions, cases have been described where entities restricted or inflated the aftermath costs. In the case of NGO and education professionals, failing to maintain a business venture is still a very significant learning experience, especially
at a young age. In these cases, three individuals participated in such programs and two launched businesses within a prepared risk-controlled framework, later growing out of it. Thus, preparation of a controlled environment for failure appears to produce truly interesting results. Regarding public institutions, there were positive aspects produced with the reduced risk funding programs that some individuals opted for. These benefits appear to have been mostly at the level of the individuals that owned the business. Cost enhancers were also visible, specifically with the complications that some individuals faced in closing their venture. Long legal battles were the main reason for this, and should be considered very detrimental for entrepreneurial development within a country.

Implications for the further development of this field are mostly related with the need for further empirical evidence (both quantitative and qualitative). This study focuses on individuals that failed and then found success in entrepreneurial ventures – there is still a wide array of longer-term outcomes (or stages in life that can be considered different outcomes) that need to be analyzed, as they can produce very interesting results.

Evidence was found of significant factors and patterns within the cases that deserve a more in-depth analysis. For instance, younger individuals showed a much more emotional response to the phenomenon, also reporting much deeper lessons. In contrast, senior individuals showed lower psychological costs. Similar to other studies, context is still very present within the narratives of the entrepreneurs, as are the antecedents of the failure – although it is not a focus of this study, several relationships were established between previous facts of the failure, expectations of the venture and the process of failure itself with the aftermath costs endured by the individuals and the sensemaking process.

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