The Anatomy of Business Failure: a Qualitative Account on its Implications for Future Business Success

Artur Raimundo Dias

Master in Management

Supervisor: Aurora A.C. Teixeira

July 2014
Bio

Artur Raimundo Dias graduated from a BSc in Management from the School of Economics and Management from the University in Porto (FEP) in 2012 and is currently attending a Double Degree Master Programme, promoted in collaboration between FEP and KEDGE Business School.

Artur previously worked in the sales area of the international IT company Oracle Corporation, in its EMEA HQ, in Ireland. He also developed a number non-profit projects, most significantly the foundation of Junior Achievement Alumni Portugal, a national network for the former participants of the Junior Achievement Portugal’s programmes.
Acknowledgments

This essay is not about failure. It is about life, which does not exist without failure.

Life is for the resilient, those who survive through adversity. This essay goes beyond that, it focuses on those who prosper in spite of diversity. And for that, they are the first to be acknowledged. My sincere thanks - you are an inspiration to us all.

This text wouldn’t also be written without a few individuals. First, my family, who have not only supported me through my studies, but also endured my absence and understandable bad humour after shuffling through more than 7 hours worth of transcripts. I hope that I’ll leave you proud with my work. My close friends also helped me pay the price, for them I promise future compensation – you will get a return from your invested time.

Secondly, nothing can be achieved alone. My honest thanks to anyone who spent hours pointing out my mistakes and correcting my grammar. Your work was extremely valued; I hope I’ll be able to repay it someday. Also, thanks for everyone that helped with leads for possible case studies – you served as magnets to needles hidden in a haystack.

Third, a special thanks to everyone that lured me into this weird and strange place, full of spirited people, called “entrepreneurship”. It’s been a learning opportunity every single day and I hope I’m giving something back with this work.

Lastly, I want to thank my supervisor. Professor Aurora Teixeira, who suggested the topic in the first place, served as my north and guided me through the complex world of qualitative research. I owe her endless gratitude for baring my copious queries, for her incessant revising and for her continuous challenge of my best.
Mr. Banks:
A man has dreams of walking with giants
To carve his niche in the edifice of time
Before the mortar of his zeal
Has a chance to congeal
The cup is dashed from his lips
The flame is snuffed aborning
He's brought to rack and ruin in his prime

My world was calm, well ordered, exemplary
Then came this person, with chaos in her wake
And now my life's ambitions go with one fell blow
It's quite a bitter pill to take

Bert:
A spoonful of sugar that is all it takes
It changes bread and water into tea and cakes
A spoonful of sugar goes a long, long way
'Ave yourself a 'ealthy 'elpin' ev'ry day

From Mary Poppins (1964)
Abstract

Business Failure (BF) is an economic and social phenomenon that has drawn much attention, with researchers focusing particularly on the prediction and determinants of BF but much lesser attention on the consequences of such an event.

Several researchers have stressed the importance of understanding how individuals manage and overcome BF and how that process influences future success. Although many consider failure a pathway to success due to it being a learning experience, there is limited attention on studies that explicitly deals with prior failure as a condition of success or other considerations that imply a longer term orientation for the individual. The present study aims at filling this research gap, being relevant for aspiring entrepreneurs and policy makers, since a better understanding on how individuals can draw on and learn from a BF experience to achieve success can be helpful for envisage future businesses opportunities and relevant policy measures for promoting high value entrepreneurship.

The aim of the present study is to contribute to the empirical literature of the consequences of BF, resorting to qualitative methods in order to better understand what occurs after BF, including what factors influence the costs and benefits and what processes the individual experiences. In particular, the cases analysed will consider successful on-going entrepreneurs that have failed in the past from two distinct settings: north and south Europe. Semi-structured interviews were used in order to collect data, being later transcribed and analysed using an Interpretative Phenomenological Analysis. This resulted in a detailed and rich account of 6 narratives provided by individuals, inserted within a framework that allowed an insightful comparison between the different experiences.

Evidence gathered showed that previous failure impacted individuals strongly. Such impact appears to be conditioned by the individual’s experience and age, and one’s own perception of blame within the failure. However, it does not appear to be affected by the size of the project or the value of financial losses with these particular individuals. An array of costs of moderators 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.

Implications were drafted based on the outcome, directed at aspiring entrepreneurs, institutions and education professionals. Further theoretical work is suggested based on the evidence gathered, particularly further empirical work to correctly validate patterns and factors identified in this work.

Keywords: business failure, consequences, interpretative phenomenological analysis, learning from failure
Index of Contents

Bio ................................................................................................................................. i
Acknowledgments ........................................................................................................ ii
Abstract .......................................................................................................................... i
Index of tables ............................................................................................................... iv
Index of figures ............................................................................................................ v

1. Introduction ................................................................................................................ 1

2. Literature Review .................................................................................................... 3
   2.1. Defining Business Failure.................................................................................. 3
   2.2. The process of business failure: a synthesis of the relevant literature ............. 6
   2.3. On the consequences of business failure: filling the literature gap .............. 13

3. Methodological aspects ............................................................................................ 19
   3.1. The theoretical framework and type of methodology pursued ....................... 19
   3.2. The operationalization of the theoretical framework ....................................... 20
   3.3. Criteria for selecting the case studies ............................................................... 21
   3.4. Data gathering procedures .............................................................................. 22
   3.5. Brief description of the selected case studies ................................................... 23

4. Empirical analyses .................................................................................................. 26
   4.1. Antecedents ....................................................................................................... 26
   4.2. Business failure - aftermath ............................................................................. 26
   4.3. Sensemaking and learning ............................................................................... 33
       Sensemaking .......................................................................................................... 33
       Shepherd’s applied sensemaking theory ............................................................... 35
       Learning from failure ......................................................................................... 38
   4.4. Consequences ................................................................................................... 40
       Cognitive Outcomes ............................................................................................ 40
       Behavioural Outcomes ....................................................................................... 42
5. Conclusions and discussion of the main lessons gathered................................. 46
  5.1. How the individual progresses and eventual new ventures develop ............ 46
  5.2. How individuals change business behaviours and practices in light of a failure event................................................................. 49
  5.3. The effect of previous failure on the individual’s future career path and/or decisions to embark on subsequent ventures....................................... 51
  5.4. 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? – paths for further research ......................... 52

References........................................................................................................ 59

Appendix.............................................................................................................. 65

Appendix A – Data Collection Preparation ....................................................... 65
  A.1 Data Collection ............................................................................................ 66
  A.2 Guidelines for preparing an effective process ............................................. 67
  A.3 Case Selection and Contact Method ............................................................. 69
  A.4 Semi-Structured Interview Guidelines and Interview Script ....................... 71
Index of tables

Table 1: Defining Business Failure: several dimensions .......................................................... 7
Table 2: Selected studies on BF Prediction ............................................................................. 10
Table 3: Selected studies on ‘BF determinants and causes’ .................................................... 11
Table 4: Selected studies on ‘BF consequences’ .................................................................... 12
Table 5: Theoretical frame of the consequences of BF research stream ................................. 14
Table 6: Summary Table of Case Study Participants Basic Information ................................. 25
Table 7: Functions of Narrative Types in Grief Recovery and Self-justification ....................... 33
Index of figures

Figure 1: A theoretical framework for studying the process of business failure for an individual ................................................................. 14
Figure 2: Operationalized framework for studying BF experiences – example questions........ 21
Figure 3: Summary of Narrative Accounts of the Participants – Part 1............................. 55
Figure 4: Summary of Narrative Accounts by the Participants - Part 2.............................. 56
Figure 5: Research Process Methodology........................................................................ 66
Figure 6: A Theoretical Framework for Studying the Process of Business Failure for the Individual........................................................................................................... 73
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 an extant literature on the topic of 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 yield to the same significant event in the lives of organizations and individuals – the defining moment that unfolded through 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 been analysing the phenomenon (Ucbasaran et al., 2013).

A considerable debate exists regarding the narrative of creation and performance of entrepreneurial efforts, but failure has received much less attention (Mantere, Aula, Schildt and Vaara, 2013). In this latter topic, the literature so far has focused on predicting the failure of healthy firms, mainly through prediction modelling using financial ratios (e.g., Altman, 1968); the discovery of the main determinants that lead to such an event (e.g., Honjo, 2000); and the consequences that proceed the failure. While the first two research areas have received increasingly higher attention in the last couple of decades, the area that focuses on consequences is still lagging behind.

This dissertation seeks to contribute to the scarce empirical research concerned with the outcomes of BF for individuals (as emphasised in Ucbasaran et al., 2013). Many researchers highlight the need of analysing what follows after a BF, specifically addressing: how the individual progresses and eventual new ventures develop (Mantere et al., 2013); how individuals change business behaviours and practices in light of a failure event (Cope, 2011); and what is the effect of previous failure in the individual’s future career path and/or decisions to embark on subsequent ventures (Ucbasaran et al., 2013). The gap includes the featured 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 worth a better understanding.

The aim of the study is thus to add to the empirical literature on the consequences of BF by gathering in-depth understanding on the consequences of BF and the
reasons/conditions that enables/hampers entrepreneurs to succeed after a business failure. In particular, we will focus on currently successful entrepreneurs who had 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 limited attention on studies that explicitly deals with prior failure as a condition of success or other considerations that imply an longer term orientation for the individual (Ucbasaran et al., 2013).

Qualitative research is key to understating the “how” of the phenomenon, especially when trying to understand the development of the individual within his/hers 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 will resort to the Interpretative Phenomenological Approach (Smith and Osborn, 2008), using a set of 6 selected case studies of on-going entrepreneurs from several countries.

This dissertation is organized as follows. In a first section (Section 2), a comprehensive literature review is presented, including the definition of the “business failure” concept, the three main research streams within Business Failure, with a particular emphasis on BF consequences, and the conceptualization of a research framework that will be later adapted in the empirical work. Section 3 details the methodology pursued, including the process of obtaining case studies. More related information regarding this subject is available on Annex A. In Section 4, the focus is on the analysis of the data gathered within the framework defined in Section 2. Section 5 draws on the conclusions reached, relating the theory revised and the empirical data, while drafting practical and theoretical implications.
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 such a concept, while others (e.g. Dimitras, Zanakis and Zopounidis, 1996; Everett and Watson, 1998), present a wide array of definitions in order to be as comprehensive as possible.

An analysis of 103 articles on the topic1 permitted to conclude that beside the studies that do not provide an explicit definition of BF (72 articles, that is 69.9% of the total), the ones 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 (see Table 1 for a synthesis of the main contributions).

Bankruptcy is a common dimension used for BF, partially due to the quantity of publically available information mostly derived from the mandatory legal proceedings that an organization has to go through when declared bankrupt. It is also a significant social mark since the company loses its stakeholders’ confidence by not being able to honour a debt – which is a definition partially used, for instance, by Honjo (2000: 559):

.. business failure is defined as a situation in which firms cannot meet their liabilities and hence cannot conduct economic activities any more. Bankruptcy through a legal procedure may be the most typical form of business failure. However, in practice, any firm whose bills are no longer honored by banks is regarded as a business failure even if it is not yet judged as bankrupt by a court.

It should be noted that bankruptcy does not imply the termination of operations since financial recuperation is possible.

Business closure refers as the cessation of activity by an organization, which can also be described as “cessation of operations” (Sharma and Mahajan, 1980). This definition, however, does not necessarily provide the reason for closure, which might demark a situation from failure – for instance, the case where a business closes due to the

---

1 A thorough search made in Scopus (http://scopus.com), using the keywords ‘business failure’ or ‘start up failure” or “company bankruptcy, within the Business Economics research resulted in 150 articles, of which 15 proved to be too unrelated for 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 revision of the state of the art.
retirement or illness of an owner/manager (Sharma and Mahajan, 1980; Watson and Everett, 1996).

Ownership change is an alternative to the formerly considered business closure definitions. The change in ownership is described as a consequence of the management team, which usually occurs in a situation that cannot attract new capital to the insolvent organization (Shepherd, 2000, in Shepherd, Wiklund and Haynie, 2009) or in order to avoid further losses from a business (Watson and Everett, 1996). When used, this definition should be thoroughly checked since a change of ownership might be considered a success in many situations, depending on the underlying factors for such a change.

Failure to meet expectations is a more subjective definition since it takes into account a previously set goal, a minimum that was not reached or an expected result that was not achieved. It could be translated into an entrepreneur giving up on his/her business due to the fact of not being able to satisfy the expected return from his/her investment (Cope, 2011) or to a company that could not achieve its planned goals (Borrajo, Baruque, Corchado, Bajo and Corchado, 2010). One other type of failed expectation is put forth by Miller (1977: 43):

> Failure … means protracted periods of poor profits and eroding market share but not necessarily bankruptcy.

Some authors prefer to apply in their research a single dimension of BF (e.g., Camillo, Conolly and Kim, 2008; Ciampi and Gordini, 2013), while others feel the need to combine several dimensions in order to use a more precise (e.g., Dimitras et al., 1996) or a wider (e.g. Cope, 2011) definition.

For example, a more embracing approach may be a combination between the dimensions of bankruptcy and business closure. As referred above, bankruptcy does not automatically imply closure by itself, and Dimitras et al. (1996: 487) decided to include a reference to closure after asserting bankruptcy:

> According to a general definition, failure is the situation that a firm cannot pay lenders, preferred stock shareholders, suppliers, etc., or a bill is overdrawn, or the firm is bankrupt according to law. All these situations result in a discontinuity of the firm's operations.

Another well-cited definition comes from Shepherd et al. (2009: 134), where it is first established the seriousness of the financial distress that the organization is going through, completing with the unavoidable change of ownership:
Business failure occurs when a decline in revenues and/or increase in expenses are of such magnitude that the firm becomes insolvent, and is unable to attract new debt or equity funding. Consequently, the business cannot continue to operate under the current ownership and management.

Bell and Taylor (2010) use the term ‘organizational death’ to describe a wide array of event that can be considered failure, being it business closure or a major negative internal change (i.e. downsizing, leadership change, project failure), and the consequent grieving process it initiates. However, Cope (2011: 605) clearly separates business closure from failure by combining it with “…the termination of a business that has fallen short of its goals … thereby failing to satisfy principal shareholder expectations.” He continues by describing bankruptcy or liquidation as narrow definitions, adding “failure involves the loss of capital and an inability to “make a go of it”.”

It should also be noted that few authors recognize the several dimensions that BF has (along with the implications each one creates). Specifically, 7 papers discuss the concept and its different definitions (e.g., Mellahi and Wilkinson, 2004; Pal, Medway & Byrom, 2011).

Sharma and Mahajan (1980) note that bankruptcy is most often used in studies regarding corporate failure, while studies on products refer most as definition the inability to reach expected performances. Watson and Everett (1996: 47) justify the use of a wide array of definitions due to the data constraints:

Generally, the definition of failure used by researchers has depended on the nature of the data available.

Taking into account the observation made by Politis and Gabrielsson (2009) that business closure for personal reasons does not provide a significant experience of failure, the definition in this study shall include the expectation dimension to assure a relevant case study selection.

In other words, this study considers that BF occurs when a business closes, either in cases where it is financially forced or by free will, which in the latter case should be due to not achieving the owner’s expectation (e.g., not enough current return, no growth expectation, poor performance, etc.) in contrast of being due to personal reasons (e.g., retirement, re-location, family issues, etc.).
2.2. The process of business failure: a synthesis of the relevant literature

Business failure (BF) is a process that encompasses several distinct phases, usually adjacent 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 the 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.

Half of studies on BF analyse the determinants of failure, with 39% trying to predict failure in organizations through mathematical models. The aftermath and outcomes of BF is only analysed by 17% of the studies.²

BF prediction is an area that attracted significant attention from researchers and rose interest from financial institutions, being researched at least since the late 60’s (Dimitras et al., 1999). Altman (1984) reviews the early work, underlying the great interest that it sparked within the financial services industry worldwide. All the selected articles are empirical studies, quantitative in nature and all present a model for predicting business failure in firms (see Table 2). They vary, however, in several aspects. For instance, some choose to differ through the sample used, creating industry-focused analysis, focusing, for example, on hotel bankruptcy prediction models (e.g., Kim, 2011). Some industries, such as retail firms (e.g., McGrurr and DeVaney, 1998), have attracted specific attention due to the nature of their business. A model specially designed to small companies was proposed by Ciampi and Gordini (2013), in the line of an earlier study by Edmister (1972).

Another clear distinction between the studies focusing on predicting BF is the mathematical/statistical technique used to create the model, always with the objective of obtaining the highest predictive power. A wide array has been used along the years fostered by the diffusion of methods and techniques among distinct research fields.

² These percentages do not add up to 100% because some studies focus more than one dimension of BF.
Table 1: Defining Business Failure: several dimensions

| Definition                          | Bankruptcy                                                                 | Business closure                                      | Ownership change                                      | Failure to meet expectations | Nº of Studies | %    |
|-------------------------------------|----------------------------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|-------------------------------|---------------|------|
| **Bankruptcy**                      | Ciampi, Gordini (2013); Kim (2011); Pozuelo Campillo, Labatut Serer, Veres Ferrer (2013); Garcia-Gallego, Mures-Quintana (2012) | Li, Sun (2012); Pusnik, Tajnikar (2008); Samuels, Joshi, Demory (2008); Arasti (2013) | Dimitras, Zanakis, Zopounidis (1996); McGarr, DeVaney (1998) | Arasti (2013); Rauch, Rijsdijk (2013); Sheperd, Wiklund, Haynie (2009) | Watson, Everett (1996) | 14   | 42.4% |
| **Business closure**                | Becchetti, Castelli, Hasan (2010); Camillo, Connolly, Kim (2008); Honjo (2000); Li, Sun (2013); Mellahi, Wilkinson (2004) | N/A | N/A | Bell, Taylor (2010); Cope (2011); Uchiasaran et al. (2013); Uchiasaran, Westhead, Wright (2009); Uchiasaran et al. (2010); Watson, Everett (1996) | 18 | 54.5% |
| **Ownership change**                |                                                                          | N/A | N/A | Cope (2011); Watson, Everett (1996) | 5 | 15.2% |
| **Failure to meet expectations**    |                                                                          |                                                                          | N/A | Everett, Watson (1998); Kirkwood (2007); Borrjao et al. (2011); Miller (1977); Sharma, Mahajan (1980) | 12 | 36.4% |
| **Nº of Studies**                   | 14                                                                       | 18                                                                      | 5                         | 12                         | 33              | 100% |
| **%**                               | 42.4%                                                                    | 54.5%                                                                  | 15.2%                                                                 | 36.4%                                                                      | 100% |

*Source: Author’s elaboration*
For example, Ciampi and Gordini (2013) and Zhang, Patuwo and Indro (1999) use Artificial Neural Networks in their research, while Dimitras et al. (1999) apply Rough Sets Theory to build their model. Other techniques include Logistic Regressions (Jakubík and Teplý, 2011), Principal Component Case-Based Reasoning (Li and Sun, 2011), and Multivariate Discriminant Analysis and Support Vector Machine (Kim, 2011). Some studies choose to apply several methods to a single sample and used pre-conceived models, being a method to compare the efficiency of their new proposed models against the existing ones (Zhang et al., 1999).

Most of the analysed articles on BF prediction draw their variables from accounting data and financial ratios, but some have other means to achieve their goal (Borrajo et al., 2011). Financial ratios variable are mostly focused on leverage indicators (Jakubík and Teplý, 2011), profitability ratios (Zopoundis and Doumpus, 1999; Kim, 2011; Ciampi and Gordini, 2013) and liquidity ratios (Dimitras et al, 1999; Zopoundis and Doumpus, 1999; Kim, 2011). A few authors do not discriminate the variables used (Zhang et al., 1999; Li and Sun, 2011).

The research stream that focuses on the ‘determinants and causes of BF’ seeks, in general, to better understand what leads organization to failure, being the research done both at a quantitative (Chen and Williams, 1999) and qualitative levels (Arasti, 2011) (see Table 3). Much like the prediction stream, a pre-defined sample can direct the research to a specific problem or phenomenon. For instance, Arasti (2011) chose to specifically analyse data sourced from Iran in order to understand what specific determinants occurred in that country that potentiate business failure. Another filter often used is related to the industry (or a particular aspect of the industry), enabling to shed a light on industry-specific issues. For example, Chen and Williams (1999) consider the division in low-technology and high-technology to assess the actual impact of industry characteristics on business failure.

In Rehn and Lindahl’s (2012) article, a single case study is analysed, providing an in-depth analysis of a firm, the relationship with and between individuals that were connected with it and the overall context in which the firms was inserted in. The analysis permitted to understand the process of failure, including the decisions and determinants that led to such an event.
The studies have looked at the determinants from different point of views, internal and external. Internal determinants include a multitude of forms, such as lack of managerial skills (Arasti, 2011), financial support or strength (Honjo, 2000; Arasti, 2011) and firm size (Honjo, 2000). In the studies developed by Chen and Williams (1999) and Wagner and Cockburn (2010), it is investigated, through quantitative analysis, whether the number of patents owned by a firm is a significant determinant of business failure, both concluding the variable is negatively related with the business failure probability.

There are also a wide number of external factors that enhance business failure. Honjo (2000) concluded that industries with a high entry have higher failure rates, whereas Everett and Watson (1998) found positive correlation between higher interest rates and higher rates of business failure. Chen and Williams (1999), in their turn, conclude that taxes (most notably, Sales Taxes and Highway Expenditures) foster business failure rates in several states from the USA.

The research stream that received least attention from researchers of our sample is, by far, the ‘consequences of BF’, which encompasses predominately qualitative type of studies, with a strong focus on the individual (see Table 4). The articles are mostly recent, dating predominantly from the last decade, and originate from the English-speaking world.

The sampling is often based on an analysis of a set of cases studies focused on the experienced failure, including own personal accounts (Cope, 2011) or third party accounts (Cardon, Stevens and Potter, 2011). Since this stream deals mostly with psychology theories, the individual’s construction of reality is important and often different from external parties, as it “underscores the fact that accounts of failure are not mere descriptions of past events.” (Mantere et al., 2013: 470).

The external view of the failure also leads to an interesting consequence, namely social costs. These include phenomena such a significant deterioration of relationships (e.g. marriages - Cope, 2011) and social stigma (Cardon et al., 2011), which can create a deep impact on the individual. Social stigma can even impede the access to future resources, such as future employment opportunities or financial support (Ucbasaran et al., 2013).
| Authors                     | Year | Country       | Time-Frame       | Sample Size          | Variables                                                                                                                                                                                                 | Modelling technique                      |
|-----------------------------|------|---------------|------------------|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|
| Ciampi, Francesco; Gordini, Niccolo | 2013 | Italy         | 2001 - 2005      | 7,113, divided into 2 sub-samples of 500 failed paired with 500 non-failed and 3,063 failed paired with 3,050 non-bankrupt | Cash Flow/Total Debts , Total Debts/(Total Debts + Equity) , Acid Test Ratio , Interest Charges/Turnover , Current Ratio , Equity/Long-Term, Material Assets, ROI , Net Financial Position/Turnover, Long Term Assets/Number of Employees, Interest Charges/Bank Loans | Artificial Neural Networks                |
| Dimitras, AI, Slowinski, R, Susmaga, R, Zopounidis, C | 1999 | Greece       | 1986 - 1990, 1991 - 1993 | 40 failed matched with 40 non-failed, 19 failed with 19 non-failed | Financial Profitability, Liquidity, Debt Capacity and Working Capital Ratios                                                                                                                                     | Rough Sets Theory                         |
| Jakubík, Petr; Teply, Petr  | 2011 | Czech Republic | 1993 - 2005      | 757                  | Leverage indicators, interest Coverage, Gross Profit Margin, Inventory Ratio , Cash Ratio and Return on Equity                                                                                              | Logistic Regression                       |
| Kim, Soo Y.                 | 2011 | South Korea   | 1995 - 2002      | 33                   | Liquidity (current ratio, quick ratio, and account receivable turnover), stability (debt to equity ratio and fixed assets to long-term capital ratio), profitability (profit margin ratio, ordinary income margin, return on equity (ROE), ordinary income to owners’ equity ratio), activity (asset turnover, inventory turnover, and fixed asset turnover), and growth (growth in revenue, growth in assets, growth in ordinary income, growth in net income, and growth in owners’ equity) | Multivariate Discriminant Analysis, Artificial Neural Networks, Logit Regression and support vector machine |
| Li, Hui; Sun, Jie           | 2011 | China         | N/A              | 153 + 216            | N/A                                                                                                                                                                                                        | Principal Component Case-Based Reasoning  |
| Zhang, GQ; Hu, MY; Patuwo, BE; Indro, DC | 1999 | USA           | 1980 - 1991      | 110 paired with 110 non-failed | Net Income/ Gross Profit, Gross Profit/Total Assets, Net Income/Total Assets, Net Income/Net Worth, Current Assets/ Current Liabilities, Quick Assets/ Current Liabilities, (Long Term Debt + Current Liabilities)/Total Assets, Net Worth/(Net Worth + Long Term Debt), Net Worth/ Net Fixed Assets, Inventories/Working Capital, Current Liabilities/Total Assets, Working Capital/ Net Worth | Artificial Neural Networks                |
| Zopounidis, C; Doumpos, M   | 1999 | Greece        | 1986 - 1993      | 40 bankrupt firms paired with 40 non-bankrupt firms, 19 bankrupt firms paired with 19 non-bankrupt ones | Multi-Criteria Decision Analysis (UTADIS)                                                                                                                                                    |                                            |

Source: Author’s Elaboration
| Author                      | Year | Methodology | Unit of Analysis | Country   | Time-Frame  | Sample Size | Research Methodology                              | Analysed Variables                                                                                     | Significant Determinants                                           |
|-----------------------------|------|-------------|------------------|-----------|-------------|-------------|---------------------------------------------------|--------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|
| Arasti, Zahra               | 2011 | Mix (?)     | The Individual,  | Iran      | N/A         | 51          | Face-to-Face Questionnaire, Interviews             | Management deficiency, lack of financial support, inadequate economic sphere, insufficient government   | Management Deficiency, Lack of Financial Support, Economy and Insufficient Government Policies.               |
|                            |      |             | The Firm         |           |             |             |                                                   | policies, incomconsideration of market issues, problems in product or service supply, lack of interest  |                                                                                                                 |
|                            |      |             |                  |           |             |             |                                                   | and dissatisfaction at the work place, inaccurate evaluation of project, lack of related experience/      |                                                                                                                 |
|                            |      |             |                  |           |             |             |                                                   | expertise/good work relationships, problems of partnership and teamwork, unclear determination of        |                                                                                                                 |
|                            |      |             |                  |           |             |             |                                                   | business sector, substituted product/service, negative influences by the family, inconsideration of    |                                                                                                                 |
|                            |      |             |                  |           |             |             |                                                   | legal issues, cheating and fraud                                                                       |                                                                                                                 |
| Rehn, Alf; Lindahl, Marcus | 2012 | Qualitative | The Individual,  | N/A       | 1996 -      | 1           | Archive History Analysis, Face-to-Face Interviews  | Chronological re-construction with design, engineering, testing, sales and strategy layers; specific     | Inadequate strategy, Context and Complexity                                                                        |
|                            |      |             | The Firm         |           | 2002        |             |                                                   | critical decision points and events.                                                                   |                                                                                                                 |
|                            |      |             |                  |           |             |             |                                                   |                                                                                                                 |
| Chen, JH; Williams, M       | 1999 | Quantitative | The Firm         | USA       | 1984 -      | N/A, 2 Sub-sets: Low Technology, High Technology | Fixed Effects Model                                      | Average hourly wage, Proprietorship/Personal income per capita, New business formation, Labour growth  | High and Low Technology:                                                                                   |
|                            |      |             |                  |           | 1993        |             |                                                   | rate, Corporate income/Property/Sales tax per capita, Total/Higher education expenditure per capita,   | Average hourly wage and labour growth rate, Sales Taxes and Outstanding debt;                            |
|                            |      |             |                  |           |             |             |                                                   | Highway expenditure per capita, Development assistance per capita, University R&D per capita,         | Low Technology:                                                                                           |
|                            |      |             |                  |           |             |             |                                                   | Federal R&D per capita, Government contract share, Outstanding debt per capita, Bank loan per bank,   | Highway expenditures, Bank loans:                                                                         |
|                            |      |             |                  |           |             |             |                                                   | Small business loans per capita                                                                         | High Technology:                                                                                           |
|                            |      |             |                  |           |             |             |                                                   |                                                                                                                 |
| Everett, J; Watson, J       | 1998 | Quantitative | The Firm         | Australia | 1961 -      | 5196        | Logistic Regression                                | Age, Consumer Price Index, Australian business bankruptcies, Interest rates, Retail Sales, Employment   | Systematic Risk variables:                                                                                   |
|                            |      |             |                  |           | 1990        |             |                                                   | and Unemployment rates.                                                                                  | Interest rates, employment rates, retail sales                                                               |
|                            |      |             |                  |           |             |             |                                                   |                                                                                                                 |
| Honjo, Y                    | 2000 | Quantitative | The Firm         | Japan     | 1986 -      | 2488        | Multiplicative Hazards Model                      | Financial strength, Firm size, Firm age, Industry Growth, Price-Cost Margin, Geographical concentration,| Firm Size, Firm Age, Industry entry rate, Financial Strength, Time of Entry                                |
|                            |      |             |                  |           | 1994        |             |                                                   | Time of Entry                                                                                           |                                                                                                                 |
|                            |      |             |                  |           |             |             |                                                   |                                                                                                                 |
| Pužnik, Ksenja; Tajnikar, Maks | 2008 | Quantitative | The Firm         | Slovenia  | 2001-2004   | 1184        | Data Envelopment Analysis                         | Financial Ratios, Technical and cost efficiencies indicators, Market share of the firm, Location of a   | Firm’s Profitability, Geographical Location, Cost Efficiency.                                                 |
|                            |      |             |                  |           |             |             |                                                   | firm                                                                                                    |                                                                                                                 |
| Wagner, S.; Cockburn, I     | 2010 | Quantitative | The Firm         | USA       | 1998 -      | 356         | Multivariate Simple Hazards Model                  | Age at IPO, Venture backed, Operating Income, Sales, Total Assets at IPO, Share of Cash and Short-term   | Sales, Total Assets at IPO, Cash Burn Rate, Age at IPO, NASDAQ prior IPO, Patent Application                 |
|                            |      |             |                  |           | 2001        |             |                                                   | investments in total assets, Share of property, plant and equipment in total assets, Level of the NASDAQ|                                                                                                                 |
|                            |      |             |                  |           |             |             |                                                   | index prior to IPO, Patent Applications Variables                                                        |                                                                                                                 |
| Wezel, FC; van Wittelooostuijn, A | 2006 | Quantitative | The Firm         | UK        | 1895 -      | 375         | Advanced Multivariate Hazard Rate                  | Product Portfolio Width, Portfolio Expansion, Number of Years since last Product Portfolio expansion     | Portfolio expansions carry an increased risk of failure, which is moderated by the breadth of product portfolio |
|                            |      |             |                  |           | 1993        |             |                                                   |                                                                                                                 |

Source: Author’s elaboration
| Author | Year | Methodology | Unit of Analysis | Country | Time-Frame | Sample Size | Research Methodology | Consequences |
|--------|------|-------------|-----------------|---------|------------|-------------|----------------------|--------------|
| Baumard, Philippe; Starbuck, William H. | 2005 | Qualitative | The Firm | N/A (Europe) | N/A | 14 | Case Analysis | Learning From Failure |
| Bruton, Garry D.; Khavul, Susanna; Chavez, Helmut | 2011 | Qualitative | The Individual | Guatemala, Dominican Republic | 2009 | 15 | Face-to-face Interviews | Financial Costs after BF (Personal Debt, Group Borrowing Default) |
| Cannon, Mark D.; Edmondson, Amy C. | 2001 | Quantitative (Qualitative) | The Firm | N/A | 427 (30) | Survey (Interviews, Group Meeting Observation) | Shared preconceptions of failure and their implications on Learning From Failure |
| Cardon, Melissa S.; Stevens, Christopher E.; Potter, D. Ryland | 2011 | Qualitative | The Individual, The Region | USA | 2009 | 331 | Media Sources collection, focusing on newspapers | Sensemaking (Attributions of causality), Stigmazation |
| Cope, Jason | 2011 | Qualitative | The Individual | USA / UK | N/A | 8 | Case study and face-to-face Interviews | Learning from failure |
| Kirkwood, Jodyanne | 2007 | Quantitative | The Individual | New Zealand | N/A | 40 | Face-to-face Interviews | Tall poppy syndrome as a magnifier of social stigma |
| Mantere, Saku; Aula, Pekka; Schütt, Heri; Vaara, Eeero | 2013 | Qualitative | The Individual | N/A (Nordic) | 1998-202 | 3 (28) [226] | Intensive cross-case analysis, (Interviews), [Media texts] | Personal and Social Constructions of BF based on Narrative Attributions |
| Pal, John; Medway, Dominic; Byrom, John | 2011 | Qualitative | The Individual, The Firm | Scotland (UK) | 1974 - 1990 | 5 | Documental Archive analysis, share price history, third party commentary, interviews (historical method to research in marketing) | Blame attribution |
| Politis, Diamanto | 2008 | Quantitative | The Individual | Sweden | 2006 | 231 | Statistical Analysis | Differences between Novice and Experienced Entrepreneurs on attitudes towards skills for coping with liabilities of newness, preference for effectual reasoning and attitudes towards failure |
| Politis, Diamanto; Gabriëls, Jonas | 2009 | Quantitative | The Individual | Sweden | 2006 | 231 | Statistical Analysis | Start-Up Experience and BF experience association with a more positive attitude towards failure |
| Stokes, David; Blackburn, Robert | 2002 | Quantitative (Qualitative) | The Individual | UK | 1999 | 387 (20) | Questionnaire (Interviews) | Experience and Attitudes of Owners with previous closed businesses towards the Learning Experience and Future Business Ownership |
| Ucbasaran, Deniz; Westhead, Paul; Wright, Mike; Flores, Manuel | 2010 | Quantitative | The Individual | UK | 2000 | 630 | Surveys | Comparative Optimism after experiencing BF |
| Ucbasaran, Deniz; Westhead, Paul; Wright, Mike | 2009 | Quantitative | The Individual | UK | 2000 | 630 | Questionnaire | Opportunity Identification behaviour, particularly after BF |

Source: Author's elaboration
One type of consequences considered is related with the long-term effects, which can be either cognitive or behavioural. Ucbasaran, Westhead and Wright (2008) investigate cognitive changes in terms of opportunity identification within entrepreneurs with BF history while Ucbasaran, Westhead, Wright and Flores (2009) research differences in comparative optimism between entrepreneurs who have experienced BF.

It is also relevant to refer that some studies do not focus directly on BF consequences, but rather analyse a specific topic and conclude that prior BF was a significant variable that had an influence (e.g., Politis and Gabrielsson, 2009; Ucbasaran et al., 2009) or identified a moderator that had an impact on the level of costs of BF (e.g., Kirkwood, 2007; Bruton, Khavul and Chavez, 2011).

In the next section a more thorough analysis on the consequences if BF is undertaken as it is the focus of the present dissertation.

2.3. On the consequences of business failure: filling the literature gap

Researchers draw on many theories from the field of psychology, such as the Attribution Theory (Pal et al., 2011) and grieving (Bell and Taylor, 2011) in order to better understand the process that 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 the applying personal bankruptcy law in a given region and the asset protection it provides (Hasan and Wang, 2008), factors associated to Institutional Theory. Based on Ucbasaran et al.’s (2013) work, it was possible to summarise the main theoretical contributions that frame this stream of research (see Table 5).

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 are worth of further study. The BF determinants are intimately related with the consequences and the outcomes, as well as the psychological processes involved, should not be separated from the individual due to the cognitive, behavioural and personality theories involved – all leading up to a key stage: rising from failure to achieve success.
Table 5: Theoretical frame of the consequences of BF research stream

| Time-Frame          | Factor                    | Theoretical approaches                                      |
|---------------------|---------------------------|-------------------------------------------------------------|
|                    | Social Costs              | Institutional Theory, Stigma, Social Exclusion and Network Theory |
| Aftermath           | Psychological Costs       | Attribution Theory, Personality Theory                      |
|                     | Financial Costs           | Bankruptcy Law and Institutional Theory                     |
|                     | Learning From Failure     | Organizational Learning Theory, Experiential Learning Theory |
| Sensemaking and Learning | Grief, emotions and learning from failure | Psychology Theory, Sense making and Attribution Theory |
|                     | Management of Costs       | Problem-focused and emotional-focused coping, Personality Theory |
| Outcomes            | Cognitive Outcomes        | Cognition and Motivation Theory, Cognitive Bias              |
|                     | Behavioural Outcomes      | Personality Theory, Labor Economics and Sociology of Careers |

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

Figure 1: A theoretical framework for studying the process of business failure for an individual

Source: Author’s compilation.

Most of the studies analysing the consequences of failures are focused on the individual. This is 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 resorts to theories from psychology (e.g., Shepherd et al., 2009; Bell and Taylor, 2011). This specific literature usually considers failure a traumatic event (Ucbasaran et al., 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, to a death of a family member (Bell and Taylor, 2011).

Ucbasaran et al. (2013) divide the consequences of BF in three different main time-frames: the Aftermath – the instant consequences that are supported after the event; the Sensemaking and 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 changes in the subject affected by the experience.

Regarding the Aftermath, Ucbasaran et al. (2013) refer essentially to the costs. Basically, they include 3 main items – the financial costs, where the subject might lose a main source of income, with the possibility of having personal debt created by the said failure (Cope, 2011; Bruton et al., 2011). These costs might be increased or reduced by several factors, such as the current investment portfolio of the entrepreneur or the easiness that the subject may have in obtaining new income sources (Ucbasaran et al., 2013). Another factor is the personal asset protections related to bankruptcy law that exist in some regions, as Hasan and Wang (2007: 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, one can realize that they can 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 endeavours (Ucbasaran et al., 2013).

An example of a factor that augments 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 to 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 organisational 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.

BF is also often attributed to mistakes made by the managers by the media (varying from region to region), being mostly linked with the impact and consequences the failure generates on its environment – all leading to a strong stigma (Cardon et al., 2011):
Of the 389 failure accounts in our dataset, 331 contained statements concerning the impact of the failure being reported. The most frequently reported impact of failure (125 accounts, 38%) was in creating 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 level of costs considered in this framework is the psychological costs. 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 on failed entrepreneurs, derived from the strong commitment had with the business stakeholders. These negative emotions often lead to withdrawal and, eventually and loneliness, with the possibility of creating a strong impact on the individual to the point of interfering “with the individual’s allocation of attention in the processing of information” (Shepherd, 2003: 320).

An example of an augmenter of psychological costs which is presented by Cannon and Edmondson (2001) could 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 less mistakes, creating a control-oriented behaviour rather than learning-oriented behaviour 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 ones that might potentially damage (one can 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 endeavours as a compensation for missing a self-defined goal (Ucbasaran et al., 2013).

Ucbasaran et al. (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. In contrast, Ucbasaran et al. (2013: 180) also refer the situation that ‘learned optimistics’ are prone to make sense of failure in a more beneficial way to enable 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…
Regarding the Sensemaking and learning dimension, it highlights the social psychological process associated with failure. This might be framed into the grief (Bell and Taylor, 2011) and attribution theory (Mantere et al., 2013), as well as the positive learning from experience (Cope, 2009).

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 analysing how the individuals make sense of the 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 (2003: 320) refers, the experiential nature of learning from one’s mistake is also present on 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 impediment to learn from the event experienced (Shepherd, 2003). This is allied with the need of making sense of the situation, being “an interpretive process 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 with 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 behavioural 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 (Ucbasaran et al., 2013).

Deriving from the cognitive and behavioural theories, Gabrielsson and Politis (2009) conclude in their work that experience with business closure experience 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 behaviours and routines inadequate, which in turn can trigger change in underlying values and assumptions”. (Gabrielsson and Politis, 2009: 376).

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

Summing up, the present dissertation’s pertinence derives from the lack of empirical research concerned with the outcomes of BF for individuals (as emphasized in Ucbasaran et al., 2013), including the featured learning process described above and all the actions and changes that are derived from it. Additionally, there is one particular outcome of BF that the dissertation aims at analyzing: the business success after failure. Although many consider failure a pathway to success due to it being a learning experience (Cope, 2011), there is limited attention on studies that explicitly deals with prior failure as a condition of success or other considerations that imply an longer term orientation for the individual (Ucbasaran et al., 2013). The following chapter details the methodology pursued in this study.
3. Methodological aspects

3.1. The theoretical framework and type of methodology pursued

The main goal of this study is to seek a better understanding of how individuals who enrol in entrepreneurial activity, and experienced one or more past business failures, managed to overcome the adversities and trauma of such an event and achieved a successful career as an entrepreneur.

To achieve such a goal, the research is conducted within the framework defined in Section 2.3 (Figure 1) using qualitative methods, which permit to leverage up from applied theories derived from the fields of psychology (e.g. Bell and Taylor, 2011; Mantere et al., 2013) and education (e.g. Shepherd, 2003; Cope, 2011). The framework is intended to focus from the individual’s point of view, detached but not decontextualized from the companies and context that he or she was/is involved. This allows a better understanding of the whole phenomenon that the individual goes through and how it affected him/her personally.

The method of qualitative research to be applied consists a set of case studies, using the methodology design advanced by Yin (2009), which consists in a collection of personal accounts from individuals that meet predefined criteria through face-to-face interviews, using the Interpretive Phenomenological Analysis (IPA) (Smith and Osborn, 2008). The IPA approach has been used before in the research stream of ‘BF Consequences’ (Cope, 2011), and enables an introspective point of view of experiencing failure. Cope’s (2011: 608) use of an 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 allowed the author to empirically achieve a better understanding of the emotional consequences of failure and its relation with the learning process.

For the present dissertation’s specific purpose, the main identified advantage of this methodological approach lays with the possibility of investigating in depth an individual and his/her progression through time, within its real-life context (Yin, 2009) – which, as we’ve determined by the framework in Section 2.3 (cf. Figure 1), is fundamental for the adequate analysis of the experience.
Hopefully, the method proposed would allow a better understanding of how an individual managed to overcome the adversities and trauma of such an event to continue to achieve success later in life – from the personal, experienced and individual perception point of view.

3.2. The operationalization of the theoretical framework

In detail, the process of study will start with an account of the situation of BF, trying to extrapolate what the individual considered 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 on the aftermath, in three distinct factors, financial, social and emotional costs (Ucbasaran et al., 2013). This includes the identification of moderators of the cost, but also an effort in identifying how the individual managed to overcome those costs, acting on the assumption that they are closely related with 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 dwell on the Sensemaking Process, Learning Process and the Outcomes of the individual.

A focus should be made on the psychological processes that influence learning, such as grieving (Cope, 2011), narrative attribution (Mantere et al., 2012), and loss of orientation strategy (Shepherd, 2003). It is also relevant to understand whether the individual experienced this phenomenon, and how it was dealt on a personal and professional level.

Only after the previous points are asserted should the actual learning process be analysed, 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 analysed. Although they may not be always fully explicit, they can be derived by options that the individual exemplifies, for instance, behavioural changes can be deduced when he/she shows a more risk prone/adverse action in relation with the previous failure.

Figure 2 synthetizes the main steps and guideline research questions of the empirical work.
Figure 2: Operationalized framework for studying BF experiences – example questions

Some precautions should be made to ensure a significant scientific contribution. The case selection method attached to this methodology is a purposive sampling – meaning the cases will be handpicked and probed for a series of pre-determined criteria.

The data collection process should also have some scientific considerations, as the interview process could affect the input attained. All the implications considered in this section are reflected in the Annex A through operational tools such as Guidelines, Scripts and other analysis framework reference guides.

3.3. Criteria for selecting the case studies

To have a valid data collection, the following criteria were defined and all submitted cases must comply with 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 with a business failure situation as defined in Section 2.1, preferably with one or several of the following conditions:

   i) Part of founding movement of the venture;

   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 referred by Watson and Everett, 1996);

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

The cases selected should also be thoroughly analysed during the interview in order to be taken into account. This includes, for instance, a detailed account on the reasons of closure for the previous failed business, as Stokes and Blackburn (2002) argue that it does influence the learning experience. The experience is much more significant when the individual accounts the failure to their own mistakes rather than external factors or other reasons. Politis and Gabrielsson (2009: 376) argue similarly:

... a more fine grained analysis of different kinds of business closure experience provides empirical evidence that closing down a business for personal reasons does not have any effect on entrepreneurs’ failure attitude. Instead, it is closure due to poor firm performance that seems to have a significant effect on their attitude towards failure.

Also, the external factors that the individual acknowledges as determinants of failure are also of utmost importance, and not only for determining the reason of previous failure. The determinants are influencers of the consequences, and might augment or contract the effect of a specific cost that the individual had to bear (e.g., Hasan and Wang, 2008) and can be used to compare cognitive differences if the individual states that it was posthumously identified (Cardon et al., 2011).

3.4. Data gathering procedures

Under the scope of this dissertation, 6 data collection interviews were made with successful entrepreneurs from two main regions in Europe, specifically in the Nordic region (with Norwegian and Danish representatives) and the South of Europe (with Portuguese representatives).

To obtain these case studies, extensive contacts to potential candidates were made through personal networks, social networks, references and Internet research. In total, the research was advertised through several social European wide networks of
entrepreneurs; 12 personal reference requests plus 2 academic research reference requests. This initial effort originated in 19 case study considerations, of which 13 contacts were followed through. Out of these 13 contacts, 4 did not produce any response and 3 failed to pass the pre-verification. The final result yields the 6 case studies presented in Section 3.5, composed by 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, which would be normally followed by the data-gathering interview, except on some cases (e.g., Brian) where additional information was required to prepare the interview script. The interviews took place during the months of February, March, May and June of 2014 in various physical locations such as company headquarters and college campus, but also through Skype. They were processed and analysed during the months of April and June of 2014.

After processing the transcripts and outlining outputs, the findings were analysed within the pre-defined framework and the literature revision previously made. Such analysis is presented in detail in Chapter 4.

3.5. Brief description of the selected case studies

From six final cases used in this research, three were originated from the north of Europe and the other three from south Europe. They are presented in the following paragraphs, with the northern individuals being alphabetically introduced first followed by their southern counterparts.

Brian (Denmark) is a young individual who developed two business projects while in high school, participating in a NGO educational programme. During the programme, the promoters decided that the business should go forward afterwards. Shortly after leaving the educational framework, internal conflicts occurred between the team, leading to the project’s shutdown. Later on and after some related projects, Brian launched his consulting firm that focuses on entrepreneurial education – through e-learning and trainings. It has been growing for nearly 4 years and is his main source of income.

Marius (Denmark) is a young entrepreneur that has started 4 companies by the time of his interview. His first (and failed) business project was started in high school, consisting of concept of a skin patch designed to allow individuals with skin allergies to
wear perfume. After 7 years of slow moving, working with partners and several setbacks, the company was eventually closed. Shortly after, he launched a consumer electronic product crowdsourcing campaign, getting over 1.2 million US$ of funding and pre-purchases.

Mikko (Finland) is a young individual who took over a family owned food service business when it was facing eminent bankruptcy. He dedicated over a year in the turnaround of the business, successfully moving out of financial distress and managing to sell the venture at a loss. Later on, he joined as a full time partner on the Nordic Business Forum, an event management company that has grown to produce nearly 3 million euros last year.

André (Portugal) is a young professional and entrepreneur who has over 10 years of experience in a multinational IT company focused on retail. While working there, he launched an automation engineering business with some friends, which never really took off and eventually faded away. Years later, he launched his own tech start-up, focused on retail innovation that is currently obtaining positive results.

José (Portugal) is an experienced professional and entrepreneur who has launched some successful projects that range from consulting firms to fibre optics development companies. He also worked for a leading research institution, where he got to know an audio engineering project that he later invested on and work closely with. The business took off with several institutional investors, however due to the economic downturn the clients and potential distributors started to drop the support and the business lagged until it could no longer live.

Paulo (Portugal) is an experienced serial entrepreneur who has launched and failed several companies in his career. His most significant failure was a company that operated a leisure complex, whose main attraction was an award winning karting track. The company failed when the owning partners had a disagreement, resulting in long and legal dispute over the ownership that doomed the business. After these events, Paulo went back to college, where he founded a tech start-up in the field of medical devices, currently operating for 7 years and with more than 4 million US$ in funding.
### Table 6: Summary Table of Case Study Participants Basic Information

|                | Case 1                        | Case 2                        | Case 3                        | Case 4                        | Case 5                        | Case 6                        |
|----------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| **Name**       | Paulo Ferreria dos Santos    | Mikko Jaatinen               | Brian Gjestrup               | André Leão Sousa              | José Magano                  | Marius Klausen               |
| **Nationality**| Portuguese                   | Finnish                      | Danish                       | Portuguese                   | Portuguese                   | Danish                       |
| **Gender**     | Male                         | Male                         | Male                         | Male                         | Male                         | Male                         |
| **Age**        | 49                           | 27                           | 26                           | 35                           | 40/50s                       | 25                           |
| **Married**    | Yes                          | No                           | No                           | Yes                          | Yes                          | No                           |
| **Nº of Children** | 1                          | 0                           | 0                            | N/A                          | N/A                          | N/A                          |
| **Country of Residence** | Portugal                  | Finland                      | Denmark                      | Portugal                      | Portugal                      | Denmark                      |
| **Education Level** | Master Degree               | Bachelor Degree              | Bachelor Degree              | Master Degree                | MBA                          | High School                  |
| **Academic Background** | IT/Business/Entrepreneurship | Business                    | Business/Engineering/Entrepreneurship | IT/Engineering | Engineering/Entrepreneurship | Education/Business          |
| **Business Area of BF** | Leisure Activities           | Food Services                | Food Cutlery                 | Automation Engineering       | Sound Engineering           | Medical/Cosmetics            |
| **Year Started** | Late 1990s                   | 2008                         | 2005                         | 2007                         | 2007                         | 2007                         |
| **Year Closed** | N/A                          | 2009                         | 2006                         | Non-Defined                  | 2013                         | 2013                         |
| **Number of Partners** | 4                          | N/A                          | 3                            | 3                            | 1 + 2 institutional          | 2 + 2 institutional          |
| **Investment of BF** | N/A                        | N/A                          | 7,000€                       | N/A                          | N/A                          | N/A                          |
| **Significant Losses for the Individual** | Yes                        | Yes                          | No                           | No                           | No                           | No                           |
| **Business Area of BS** | Medical Technologies         | Business Events              | Consulting; Trainings; Entrepreneurs hip | Retail Consulting | Fibre Optics Engineering (EG) | Consumer Electronics         |
| **Year Started** | 2007                         | 2009                         | 2010                         | 2011                         | 2004                         | 2012                         |
| **Number of Partners** | N/A                        | 5                            | N/A                          | N/A                          | N/A                          | 5                            |
| **Investment** | 4.9 M USD                    | N/A                          | Residual                     | 500K €                       | N/A                          | N/A                          |
| **Previous Year Revenue** | Undisclosed                 | 2.9 M €                      | 40 000,00 €                  | Undisclosed (Positive)       | Undisclosed                  | 1.2 Million USD (Crowdfunded) |
| **Interview Date** | 27/02/2014                  | 11/03/2014                  | 25/03/2014                   | 26/05/2014                   | 02/06/2014                  | 06/06/2014                   |
| **Location**   | Kinematix Offices, Porto     | FEP, Porto                   | Skype                        | UPTEC Inovação, Porto        | Porto Business School, Porto | Skype                        |
| **Duration**   | 2 Hours                      | 1 Hour                       | 1 Hour                       | 45 minutes                   | 50 minutes                   | 50 minutes                   |

Source: Author’s elaboration
4. Empirical analyses

4.1. Antecedents

There is a very rich distinction background between two main groups of the cases. First and foremost, half of the interviewees are younger than thirty years old and did not have significant work experience prior their failed business. In the case of Brian, it was his second entrepreneurial project – second in his high school years, while Mikko had already closed his own high school project when he embarked on the family business. Marius actually was more successful with his young initiative, lasting 7 years and being the main topic if his interview.

Older individuals compose the other three cases, with one young professional of 35 years old (André) that has over 10 years’ experience in a large IT company. Two experienced executives of over 50 years old, one (Paulo) characterized for having previous experience in developing many varied business that range from an IT consulting firm to a bakery; and one other (José) who dealt directly with research development within the academia and technology transfer to the market.

All but one case can be considered as a “serial entrepreneurs”. The exception is André, who only dedicated himself to 2 personal company projects and to a role within a single thirdly owned company – a role that he greatly values and repeatedly addresses as his main source for skills and industry knowledge. Paulo also remarks, during his interview, that he had, when was a recent graduate, a high paid job in a German company operating in Portugal that influenced him a lot during his younger years. José, on the other hand, had several and more liberal roles in his career, working for various teaching and research institutions within the academic scene in Portugal. He can also be considered a serial entrepreneur, with previous and following successful business ventures, bringing more diversity to the array of case studies selected.

4.2. Business failure - aftermath

All the cases presented multi-dimensional costs after their BF, with some individuals preferring to focus on one type of cost in comparison with the others.

For instance, and in terms of Financial Costs, although Paulo admits to have changed his family’s consumption habits, he never focuses too much on that specific type of losses – he argues that he was prepared for it, and as he was born into a wealthy family
this helped to overcome the inconstancy of the revenue – a possible cost moderator. It should also be relevant to note that Paulo is a serial entrepreneur with an active portfolio, with some profitable businesses that lasted all through his ups and downs – which is obviously a moderator since he has never completely deprived from income. This was also visible with Marius and José, since both had active and more successful ventures running alongside their failed projects. Another situation was visible with André, which relates his short losses with a low risk approach, deeming both a reason for the failure and for never quitting his “day-time job”.

Two of the younger individuals, Brian and Mikko, did not sustain losses as high as Paulo for instance, but show a strong significance since they had attached emotional and social value to the invested money. This is corroborated with the inter-relationship between the different types of costs, as summarized by Ucbasaran et al. (2013; 181), showing further insight into this phenomenon. For instance, Mikko’s failed venture was a family business – to which he admits that “even if it had been 100€ it would have been significant because it’s money that has some kind of emotional value - because it’s a family thing going on...” Both he and Brian also refer their young age as a factor that accentuated the importance attributed to financial losses, probably due to being their first experience with quantifiable value losses. Brian refers more than once the relationship that he had with some of the stakeholders that invested in his project (in his case, either with money or in kinds) – he says that he barely had any personal money to invest in it and he would not be able to execute the project without their help, later referring that the psychological cost of shame was mostly related to letting down the stakeholders that invested in him.

Another key point related to the financial losses highlights the relevance of institutional theories. Considering the effect that institutions can have as moderators of financial costs, the cases analysed offer a wide array of examples. One can identify a situation where an external organization allowed the execution of a project and prevented personal losses, which is the case of Brian that started his project within the framework of a NGO the focused on entrepreneurial education, helping him finance his project with informal investors and community help. Otherwise, Brian admits that he wouldn’t be able to get finance and would have needed to go to friends, fools and family. Marius also participated in the same project, but he managed to withdraw something different –
he claims that the publicity that his project had led to being approached by a medical products development company, that invested and partnered with them.

Another extremely relevant institution to take into account is the government. Marius did not sustain significant losses because his project was financed through a risk-free loan supported by the Danish government. He claims that he’d only need to repay in case of having a successful company, thus not having any personal risk in it.

Interestingly enough, José’s experience with a publicly funded venture capitalist organization was not as positive. He claims that they did not possess the right knowledge to work with his pre-seed project, failing to support the project in a timely manner when it most needed and thus contributing significantly for the failure. In contrast, the main promoter and financer of his project was also an institution - a research institution, which also employed him in many projects.

Paulo also admits that he was severely affected by local institutions in a negative way – first, problems related with licensing and permits arose from the municipality when his partners parted ways from the business, being important to add that they were the local partners interfacing with those bodies; then secondly, through the long judicial processes that we was put through by the departed former partners, taking years to reach a verdict – meanwhile, the operations froze and the assets deteriorated, culminating in larger financial losses and destruction of value for all the stakeholders. Interestingly enough, Mikko seems completely neutral to institutions in his narratives. When asked about it, he says that they had no true impact in his ventures – he thinks banks are hard to work with and that the government is doing an okay job in terms of entrepreneurship promotion, only complaining about high taxes imposed on his successful business on its first year of significant profits.

Brian claims that he implicitly applied the Affordable Loss Principal, a heuristic decision making process that focus on the individual’s loss risk per decision taken. It is more about what one has to lose, an assessment of the risk he or she will face. André reasoning is a perfect match with the plunge decision-making process described in Dews, Sarasathy, Read and Wilbank (2009, pp 110):

> The affordable loss heuristic involves decision makers estimating what they might be able to put at risk and examining what they are willing to lose in order to follow a particular course of action. In principle, affordable loss might be used at all levels of analysis - individual, firm, economy, etc. - and in a wide variety of contexts, such as new product development, new policy initiatives, the building of new institutions and, of course, new venture start-up decisions.
It is interesting to see such phenomenon in first-time entrepreneurs, even more interesting to know that they have identified as a positive feature applied in their decisions making and that it did in fact minimize their financial losses.

When turning to the social costs of the BF, the most noticeable point is with Paulo’s legal dispute with his former partners. That situation might, indeed, be a cause and consequence – internal issues lead to an agreed upon terms that were not later respected, creating litigious action that froze operation and led the organization to its demise. Brian also had a similar experience, what he describes as a lack of team work resulting in an unexpected contract proposal that excluded him from the company – causing him to confront his partners and break professional and personal ties for years, re-connecting more personally with one partner that also followed a more entrepreneurial career path. On a lighter note, André admits to regret picking his partners on the project and goes on saying that he would not repeat a project with them.

Still discussing social costs, Marius attributed part of the blame for the failure to one company partner that got involved with the project at an early stage. By the end of the company’s life, he and a partner decided to break off relations and bought back the ownership of the business for free.

José also had a significant identifiable amount of social costs. He discusses on how he represented both himself and an institutional partner in the company, being sometimes tricky to value his opinion when he had to act in interest of the majority shareholder. He also admits a distancing of relationships by the end of the project with the research institute. Regarding his relationship with the VC firm, he ended with a very poor opinion of them, later on admitting to have never worked with them again.

The relationships that the entrepreneurs had with their family and friends also took some toll in this phenomenon. Relating with financial costs, Paulo confesses that he has an agreement with his wife that allows him to adapt with his riskier career practices, adding that he changed the consumption behaviour of his family to accommodate it (e.g., taking less vacations). He also talks about “living in a unstable environment” indirectly affected his family, to the point of admitting that he is only able to be an entrepreneur with the full support of his family. Mikko, on the other hand, and from a younger person point of view, highlights the negative impact of the failure on the relationship he had with the family, also referring the negative emotions derived from
the family money lost in the process. He also reports having a deterioration of his personal relationship with close friends as a consequence of psychological costs such as stress, adding that he did not experience the same consequences for his professional network due to this reason – with that specific group of people, he just drifted away after selling the business.

Another dimension of the social costs focuses on the social stigma that occurs after the failure, with Paulo showing signs of projecting the previous failure when he admits that he is being “pre-judge” even before he has failed, considering that he is being discriminated for his nationality by his fellow countrypersons. He adds after that he does not really care about what people think of him, other than his close friends. Mikko takes another stance, adding that he did face some stigma and that he did care about it. He admits to have faced stigma not only from his industry colleagues, but also from a local network community that looked up to him. Marius at a point admits that hadn’t he had other two successful companies, the loss of his only project would have been a “more personal failure”.

In contrast, the accounts of André and José show no sign of being affected of social stigma. José admits to have discussed the failure with colleagues, but feels he had no issues with it.

An unexpected output came from Paulo, which presented evidence of the Tall Poppy Syndrome, as described by Kirkwood (2007). He stressed more than once that he felt that his fellow countrypersons not only have strong negative feelings against personal success, but also had some kind of enjoyment of disgrace – both to contemplate but also proving to be extremely resourceful in creating an effort to help the disgraced. He relates this phenomenon later own with some resolute business decisions, as described in the Behavioural Outcomes in this analysis.

Changing focus to the psychological costs, negative feelings and consequences were present in all the cases analysed. Mikko and Brian presented high levels of stress during the failure. Mikko describes that he went through situations “of the kind where you ask: should I cry or laugh?”, admitting that saving the business was not worth it and that he had issues with personal relationships mostly due to it; while Brian speaks about a level of stress so high to the point of being “mentally ill”. Both reported immediate relief
after the end of the failure, Mikko adding that knowing that it will end gave him “a light at the end of the tunnel”.

Another important feeling often experienced in the failure phenomenon is shame and embarrassment (Ucbasaran et al., 2013). Brian, in particular, focuses on this issue at a point – he describes the failed project as his “first big success”, also feeling responsible for the loss of the stakeholders since he also personally vouched for the venture to begin with. He claims that he had broken their trust. In contrast, neither Mikko nor Paulo admit to have felt shame. Mikko simply attributes the blame of the failure to someone else, even seeing himself as a “martyr”, partly saving the business from an even worse fate. When asked about it, Paulo replies that he doesn’t really worry about what other people think about the failure – taking the conversation back to how he feels that the country has an error-punishing tendency. At a point he also says that he never felt ashamed in assuming his failures.

Not all cases showed evidence of grieving, or emotional stress at all. The most observable example of a case with grieving is with Mikko, who admits to taking a month off after selling off the business to “to just relax”. Paulo, in his way, says that he is “never depressed for more than 24 hours”, showing high resilience in his own way – although it should be considered that the attribution of is failure is almost completely external and personified. José also appears to be mostly immune to psychological distress, other than admitting that it was a frustrating project and that it was disappointing to fail so close to being saved. Marius only shows an affective relationship with the failed business venture, dubbing it several times as his “little darling company” – due to being his first. Later he acknowledges that he always believed in the potential of the company, but perhaps should have closed earlier – the affection led him to try several times until shutting it down.

These emotions generate a significant cost for the individual and can be a strong moderator of the learning process, as it is analysed later on when focusing on the sensemaking and learning section.

Another set of key points observed is related with risk. The risk/reward relationship is clear when related with the antecedents of the cases. The young entrepreneurs had very little to lose and to invest – given the fact that they still have strong family support and had institutional sponsors that took most of the financial risk from their projects. One of
the older entrepreneurs also included public institutional support in his venture, but he perceives it as a negative influence on the project. Interestingly enough, 2 of the older entrepreneurs refer the public funding as an important role in his success story, while the Nordic cases appear to have no state support in their successful ventures.

Considering the previous point, it is important to discuss institution as a moderator of costs. It is arguable that the individuals mostly benefited from institutions - particularly when considered both failed and successful venture. Brian had support from a framework designed to aid students through learning by doing, Marius participated in the same programme and later on even took a state financed risk-free loan, Mikko admits that his family always helped him. On the successful side, both Paulo and André benefited from government-funded programmes – of which, one that José has a clearly bad experience with. Even Marius, of his most successful venture, talks highly of benefiting from a relatively new kind of an institution – crowdfunding.

Theses specificities lower significantly the risk for the entrepreneur, especially when comparing to a more traditional financing option such as a bank loan. When a bank loan is acquired, the individuals have much more lose since their assets are also on the line and a failure would surely generate much more impact on all levels previously discussed.

It should also be noted that the ventures themselves do not lose significance for this study, even when the risk is very low. The participants are aware of the value of time invested, as explicitly told by Marius and André, and implicitly showed by Brian and Mikko. Also, even small financial losses appear to be are very significant for the younger entrepreneurs, even considering that all cases clearly present a “safety net” – either set by an institutions or by the family. Individuals that had other sources of income running during the failing period also seem to have generally better resisted the aftermath costs at all levels.

The risk/reward perception also highly influences expectations of return for the entrepreneurs, which when failed can exert emotional influence on the entrepreneur – as Marius refers at a point, when the company started they “were young and even thought we could take over the world” - being immediately confronted with a slow growing business. Earlier on, he had admitted that one of the reasons he had created 2 service businesses was because he was able to see the results immediately. This shows strong
evidence of a highly frustrating environment, where Marius simply looked elsewhere for a more stimulating experience. Another comparable example is visible with André who keeps claiming that the project “never scaled” – such a statement could be seen as never saw actual tangible growth potential to fully invest in it.

4.3. Sensemaking and learning

Sensemaking

Sensemaking refers to the way that the entrepreneurs assign meaning to occurrences, which are bound to happen in such a traumatic event as Business Failure. It is intimately related with the learning process.

One important input for the sensemaking framework perspective is the individual’s narrative attributions extracted from their own account of the failure, since not only will it expose the process itself but might also enlighten on some additional consequences or moderators. Making use of Mantere’s (2013) framework (See Table 7), each case was categorized based upon only their personal insight. This analysis is complemented using Aronson’s (2011) self-justification strategies, derived from a possible deep cognitive change in the individual’s concept of himself due to the failure.

Table 7: Functions of Narrative Types in Grief Recovery and Self-justification

| Narrative Attribution | Focus of Responsibility | Grief Recovery                                                                 | Self-justification Strategy                  |
|-----------------------|-------------------------|--------------------------------------------------------------------------------|---------------------------------------------|
| Catharsis             | Personal                | Loss orientation: Face personal role in causing the loss, accept responsibility and learn to identify and temper over-confidence | Internal: Locate faulty beliefs and actions as belonging to the ‘old me’, learn by abandoning the ‘old me’ in favor of a ‘new me’ |
| Hubris                | Collective              | Loss orientation: Face partial responsibility for loss as a result of getting carried away. Restoration orientation: Sidestep experience of loss by constructing failure as a common occurrence | Internal: Address the experience of having behaved irrationally through social pressure External: Justify failure as a typical outcome of an atypical social context |
| Zeitgeist             | Other Actor (s)        | Restoration orientation: Restore self-esteem and competence by blaming other actors | External: Protect self-esteem by blaming other actors; seek justice by causing reputational damage to blamed actors |
| Betrayal              | Other Actor (s)        | Restoration orientation: Restore self-esteem and competence by blaming other actors | External: Protect self-esteem by blaming external societal factors |

Source: Adapted from Mantere et al. (2013).
Paulo’s case is clearly betrayal, considering that he diminishes the internal issues that he briefly talks about and focuses on the fact that his partners did not comply to the agreed terms. Once external to the company, one could argue that the partners became Paulo’s nemesis, since he believes that it was their action that drove the company down. Another key player in the company’s demise was the legal system. Not only was it clear that Paulo had the law on his side (as it was proved later in court), the sheer amount of time it took to reach a verdict was an overwhelming factor in the discontinuity of the operations of the company, a point that Paulo makes repeatedly. In way, Paulo does not also blame the context, but a single institution that he claims its incompetence is damaging.

Considering all his narrative, Paulo clearly presents an external justification recollection. He does not appear to blame himself at all – except some rhetoric where he claims had he been more prepared, maybe he would have been able to prevent it.

Mikko case’s seems to fit a mix of fate and possible a betrayal category, although it is not possible to conclude his relationship or involvement with the previous managers of the business – however, one key take-away is certain: the blame is attributed to them and to other uncontrollable external reasons. He does not seem himself with any responsibility of the failure, on the other hand – he sees himself as a “saviour and martyr”, who managed to save some of it by making sellable at a loss. Thus, the blame he attributes to himself is relatively reduced.

One could argue that Brian’s case is a hubris, with elements of mechanist – mostly visible when he discusses about the lack of team work within the team and how it lead to its demise. Later, it might be said that a factor of betrayal ensued, at least from Brian’s point of view since he claims to have been surprised by the contract proposal for his dismissal that he received. He apparently mostly blamed an individual, aggressively confronting him at that time – taking years to absolve the whole fault from that specific person. He also presents both internal and external justification evidence as he refers more than once to his young age at the time in an apologetic manner (a sign of catharsis) but also states that the team was poorly built and could never work.

Brian, in contrast to Paulo, shows gratitude and positive feelings towards the NGO that stimulated his entrepreneurial skills, ending up playing a crucial role in the creation of business. Once the project was independent from it, it started its demise.
André’s account resonates with a *catharsis* type of narrative, where the failure is attributed to the promoter’s actions, mainly the lack of investments made (time and money) or lack of planning and strategic skills. André does not refer to it as his “*older self*”, but his repeated justification of not truly investing himself in the venture and the fact that it did not scaled denotes an expectation not reached – attributed, as discussed, to the lack of resources gathered. It is not accentuated as much as the original framework presents it, but there is definitely self-attribution of failure – possibly rationalized by André, as he presents it more than once as a “*calculated risk failure*”.

José’s narrative might be characterised as *hubris*, but the blame lays on the line of external and internal – first, with the crucial role the financial crisis plays in the failure process; and secondly (and arguably most influential), the complex stakeholder situation that many institutions played in the venture. He talks about different influences that led to the failure, ranging from the lack of support from a VC firm, a contract breached by a client, a research institution that slowly withdraw the support, and even himself, as a multi-sided representative in the project. However, it is clear that he does not feel himself responsible for the failure.

Marius’ attribution lays mostly on the initial decisions made, the inability to correctly assess the effect of the financial crisis in the project and then a lack of focus that led the project to its long demise, thus showing signs of a *catharsis*. A clear key point within the project was the partnership with a medical products development company that became responsible for most of the business related tasks of the project – Marius admits this was not a good decision, mainly for two reasons: one, it withdrew motivation from the founders since they did not get the chance to talk to clients and to “see the business happen”; and second, they were working with an array of similar projects and had a couple older businessmen representing a young oriented product to potential clients, making them, in retrospect, for Marius, a poor match.

**Shepherd’s applied sensemaking theory**

When analysing the outputs through Shepherd’s (2003) applied sensemaking theory, one can find evidence to support his arguments.

First, most cases offered what he dubs a *dual process of grief recovery*, using both loss orientation and restoration orientation strategies. An example of loss orientation can be presented from Mikko, who took a month off after the failure to “*just relax*” and
process everything. It should be extremely relevant to note that Mikko felt like the business wasn’t worth saving – he admits that the toll and work it put on him could have been applied somewhere else, which has a very specific event analysis underlying. Paulo also admits to relive everything from the failure in his head and take mental notes for future references (even if he admits to only do it “for 24 hours” after the failure).

Then, as the author suggests, both Mikko and Paulo turn to another direction (Shepherd, 2003: 323)

When the individual’s attention begins to shift focus, from the event to aspects of the grief itself, then learning is likely reduced by emotional interference, and the individual should switch to a restoration orientation.

Mikko moves very naturally to a new business opportunity, investing in a start-up that he was already connect through and advisory board. As he puts it:

And when we sold the Cafeteria in the summer of 2010, it was an obvious choice for me to become a partner in the Nordic Business Forum. I knew the guys very well, the guys knew me very well, I knew the business – you know, things like that. It was an obvious choice to do.

Paulo creates a much deeper change in his life, adopting a restoration strategy that completely shifts his career path and can be directly related to his failed experience. After his business was condemned, Paulo decided that he wanted to go back to college after 20 years, for several reasons – first, he wanted to refresh is knowledge; and second (and most interestingly), he wanted to find his next business in the academic world. The reasons for him to search for his next business in a university campus are directly relatable for the attributions of his previous failure, as he had made a resolution to never work for the Portuguese market again. He wanted an internationally oriented business to potentially avoid another situation as the one he had just experienced, where business partners did not honour their agreement. The narrative attribution, in this case, had an extremely strong influence on the restoration strategy.

In contrast, Brian appears to have partly skipped the loss orientation strategies. This can be one of the reasons why it took him years to amend his relationship with the former partners. He admits that he almost immediately jumped to his next project, something that probably prevented him from being less active in the following period:

Actually, I think I was about lucky timing. While building and running Delicious Design, I was already a member of the Danish alumni association. And that, as you know, it became my next playground – my one big commitment. So the transition of being absolutely furious and hating, to say “okay, I could go here do something else but with, you know, equally cool people and maybe bigger opportunities”. So it was actually quite smooth, in terms of, you know... I wasn’t left with nothing to do, basically.
He later admits that the failure stimulated his curiosity into “why or how people function together or not, why do teams all of a sudden peak or split up”. He admits to have returned to the subject in his academic endeavours, showing growth later on even admitting that his role on the company probably wasn’t what he thought he deserved – taking some of the blame from his former business partners.

Shepherd (2011) also refers that knowing about the negative emotions that one experience through failure can help the entrepreneur, something that most cases implicitly referred to. Brian, for instance, talks about how having gone through failure thought him that he is capable of “… fall in a very deep dark hole… I’ll be alright, I’m gonna push through and find a new way”. This will also be observed in other cognitive outcomes.

Related to this issue, André makes an interesting remark at a certain point – he claims that entrepreneurs usually have a “period of disgust” after failing a business, a term he uses for what this study describes as loss restoration – a down time used to process the failure. He says that between his initial venture fading and the starting of the successful business, he returned to his demanding IT job that led him to gain many important skills – explaining the lag time with an “in life, there’s a right timing for everything”, making sure that all the conditions were properly gathered. Although there is not enough evidence of it, his strategic approach to his life planning could implicitly be applying a dual process of grieving.

Related with André’s failed business and Marius’ own experience, both cases are hard to pinpoint a definite business closure moment. This may corroborate with Shepherd’s proposed benefits of delaying Business Failure due to anticipatory grief. He states that such psychological process would allow for a better sensemaking and realization of the impending failure, serving as a safeguard when the loss actually occurs (Shepherd et al., 2009). In both cases, the individual had other significant time consuming and revenue producing projects that also appeased their ego in terms of being successful. Marius states exactly this, when he adds that if he had only the failing company it would have been “much more personal”.

However, it is relevant to contrast that Mikko’s experience and his strategy during the project of a turnaround and selloff might present an opposing case. Although Mikko did show reduced grieving symptoms, he himself adds that the delaying allowed him to
make the business sellable at reduced losses but at what explicitly describes the emotional costs to be excessive – a somewhat different occurrence as Shepherd Proposition 5 model’s (1999; 142-143) argues. However, it does seem that this particular case corroborates with the fact that the individual’s realization of the impending failure does indeed help the recovery – as he puts it, “there is light at the end of the tunnel”, the stress of failing will eventually cease.

On some participants, one can clearly relate the narrative attributions and grieving processes with the individual’s learning experiences and professional outcomes. As already discussed, Paulo’s personal reinvention steered him away from Portuguese markets and back into higher education. Brian stayed attached to the entrepreneurial community and now owns a training and consultancy start-up in the field. André found his next venture within the experience of his main job, remaining in the industry that he had the most experience and built his business around it. Marius decided that he wanted to develop products on a more technical level after experiencing it first had, but also that he wanted to be more active with the business area to not lose motivation – something that led him to create two service based businesses. These are very significant longer-term consequences that impacted the individuals. Others are also visible, such as all the fact that all the 6 individuals changed several key factors between failed and successful business – such as financing methods and industry.

**Learning from failure**

When it comes to analyse the benefits of BF, none stands out as much as the learning opportunity that arises from the phenomenon. All individuals were asked what lessons they had learned from the experience. It was often identified more than one lesson obtained from the failure, along with many shared lessons or topics in common.

The most present lesson was related with people – Paulo, Mikko, Brian, André and Marius all referred as having learned the lesson that the people you choose to start a venture is critical for its success. Paulo refers repeatedly to loyalty, honesty, transparency, and the importance of selecting employees that share his values – an obvious response to the previous attributable betrayal that he went through. Brian and André speak of just being the wrong team, with them both admitting they changed their views on how to pick people. Marius appears to go a step further, as he once says that it
was “the wrong constellation of people”, relatable with the issues that he had with a company business partner.

Another very present topic of lessons is related with institutions. Paulo had a very significant narrative attribution focused on institutions. However, he does not particularly single out any of them in the lessons – other than his deep behavioural change in doing business with his country fellows. José, on the other hand, focuses on how he learned that equity financing might not always be the cheapest option in the longer term, on how institutional shareholders can affect the business negatively during its development. He also dwells on the issues he had by representing an institutional investor and himself (as a shareholder) – he talks about how one “shouldn’t wear two shirts”.

Shifting to a much more internal point of view, several entrepreneurs focused the lack of resources and efforts allocation as a major reason for the failure. Most notably, André says that he project was not successful because he made the decision of not risking his personal income - thus investing time and money in a calculated risk manner, by only dedicating himself to the project when he was not working in the IT company. Marius also refers something similar, but calls it “focus”. He admits that at a point he had too many companies, the fact that he couldn’t focus and commit to one was a reason for not having more successful projects. Brian had a similar issue, where he admitted that he was partly feeling stress for having so many projects and he was failing his high school because of that.

In most of the cases individuals also speak of learning new skills and competences – linking them directly with impact created on their successful ventures. Paulo especially focuses on what learned in college, on how to have a more scientific approach to business creation, something not directly with the failure but surely a derived consequence of it. Mikko stresses the financial and people management skills he developed, while Brian focuses on team working skills. André stresses what he learned about the process of creating a company, stating that the project made him deal with different tasks and positions that helped him develop some important competences – something that Marius can certainly relate to, as he focuses on the importance of learning how to create a company at the age of 18 was on his professional life.
On a related note, it should be highlighted the stance that most of the individuals presented on learning through failure – it was generally positive and welcoming. Paulo states that it is a learning method – not the best one, but certainly a way to learn. Brian, Mikko and Marius appear humbled by the chance of learning, giving it an apparently higher value. André seems to be true to his nature, clearly dissecting the main learning points and relating with measurable consequences – nonetheless, being quite proud of trying and failing.

4.4. Consequences

Cognitive Outcomes

All of the subjects present significant changes in the way they perceive themselves and the world around them, some in very distinct ways. The importance of re-building one self’s concept perception is often a long and complex process, but all cases showed evidence of being capable of directly relating a growth the failure event.

Paulo does not hesitate in recognizing that failure made him much more confident of himself and his skills. He insists on his natural tendency to lead and manage, it is what he likes to do. He also shows great self-awareness when he admits that he is stimulated by unstable environments – plus, awareness for others when recognizes that it affects his family. He also appears to know what he wants in life in order to be happy, along with what are the main core-values that he wants to promote within his organization.

Other cognitive traits were observed during Mikko’s interview. He seems to have developed a very optimistic and favorable perception of failure, claiming that “... do something and you fail, but you learn from that – I think that is success”. He attaches growth, learning and a lot of personal insight to unsuccessful experiences, in a mental framework that seems quite rationalized. He also seems to devalue some costs in favor of other ones, as he puts it:

> Usually money comes and goes, sometimes we have and sometimes we don’t – but learnings and relationships usually stay… I would consider those millionaires who have friends and learnings are the best millionaires of them all.

He goes on talking about how children are educated from very early in school affects the general perception of failure, adding that “failure seems to be such a bad thing... we mark every error with a red mark and show to the kids that “hey, this is wrong, you did a mistake here!”.
Mikko also appears to be highly aware of possible bias that a failure creates, being such an emotional experience that most people create a “*painted picture*” of the situation.

Brian, on the other hand, focus on his own skills development over the failure and admits to be much more aware of how team works – aspect that he blames to be the cause of the failure. Another key outcome for Brian was the fact that he sees his role in organizations differently. That led him to re-assess the position taken during the failure, admitting that he might not have been completely right at the time.

Both Brian and Mikko share a same cognitive trait of knowing that they’ve “made it” through the failure. This is particularly relevant, as it supports one of Shepherd’s (2003; 325) previously referred conclusions:

> .. the knowledge that the feelings and reactions the individual is experiencing are normal for someone dealing with such a loss may help to reduce feelings of shame and embarrassment. This, in turn, might encourage the self-employed to articulate their feelings of grief, possibly speeding the recovery process.

This may be relatable to the admitted self-confidence increase observed in all cases, likely a personal empirical response to a hard to experience event – or as Mikko illustrates in the following analogy:

> I think it’s more of a psychology failure, you know, how you consider it yourself. It’s not really about “do you really fail or do you don’t fail”, it’s a matter of attitude, a matter of psychology in a way. Even I would say “Hey, you will not fail; you will do great things, you will not die – so jump from the cliff and do the bungee jump” – you would not do that, because you are afraid. You think that something could fail, you think that something could go wrong. You have never done that – and that’s why you don’t jump. Even we would make like 99.9999% sure that it won’t fail, you’ll be alright – it’s just gonna be a hell of a ride, but you will not fail – and you would still not jump. Because you’re afraid, because of psychology.

André, on the other hand, shows a much more reduced cognitive change advent from the failure. He insists that he gained much more from his professional career in a multinational demanding company than from the experience. He also recognizes that the two main lessons that he learned from the failure are the most significant for the current success of his company, but the skills he used are much more related with his professional experience.

He also considers an entrepreneur more of catalyst – the person who connects other people and makes things happen. He admits that he fails much more than other types of professionals, but he usually tries again without suffering psychological costs.

André also said an important statement: specifically, that the failure had no impact on the opinion he has of himself. He assuredly states that he’s well aware of what he can or
cannot do. He also adds that failure is not a good – as he puts it, there are benefits from it but it should not be glorified. He failing himself, but he uses an analogy when he compares it running the marathon, when one might not win but is also a proud moment to finish it.

Regarding José, no cognitive changes were identifiable. Several reasons could have led to such a results – first, José is considered a successful serial entrepreneur with several income sources, as well as being an academic professor. Second, he does not attribute any blame of the failure to himself, which makes it a less impactful experience.

Marius seems to recognize his own positive cognitive changes from the experience, where he claims that he knows what he wants to professionally because of it. He adds that he had almost the right product, but not exactly what he wanted – but it clearly helped him define what he wants to do in the future.

He also refers the fact that he used to be proud to say that he was the owner of 3 companies, only to later realize that it was not at all positive – he would not invest in a person that has 3 projects already and he thought it would be impossible to successfully run 3 separate successful companies.

Another key cognitive change observable is when Marius claims that is was really hard to create a company in Denmark when he was 18 or 19 years old, but then describes the value of learning later on. It might have become easier for him and less haunting since he has done it over and over, and his narratives present a “do not care about the consequences, let’s go for it” tone.

**Behavioural Outcomes**

Changes in business behaviours are also observable in the case studies, with emphasis on the analysis being put on possible attitude adjustments towards risk assessment and motivation to start over.

Paulo presents a very resolute answer, stating that he has never let his failures dissuade him of being a manager and business owner. He classifies himself as fighter, liking to fight against the odds – but also admits to pick his “fights” much more carefully these days.

Also, as previously discussed, Paulo made a resolution never work again for the Portuguese market. It is not a coincidence that he has a business based in Porto
(Portugal) and offices in other two other countries, with all its clients and many stakeholders being abroad. In his words, he believes that one can never be truly successful just working for his own native country.

In another clearly identifiable outcome relatable directly to the failure, Paulo emphasizes on the changes he made on how he evaluates people and he builds a team. He seems to value honesty, openness, loyalty and trust – all most likely to prevent another “betrayal” from his business partners. He also adds that he hires young people and tries to pass his personal values to it. In a related topic, Paulo also prepare a much more thorough social contract between the owners of his current business – stressing the importance of the exit clauses to avoid repeating what happened in the failed situation. He adds that they were once activated and the execution was much smoother, without margin for discussion since it was previously agreed. Brian also admits to have generated a much more curious position regarding on how teams work, being more careful with whom he works with – a lesson that he’s glad he learned with a lower value project. André also makes an analogy on how he changed his partner picking practice – he sees it as one would pick a football team, which is made with eleven people with very distinct characteristics and that are assigned with different tasks and roles, as opposed to pick out of friendship and closeness as a he did previously. He adds that he realized that a good environment should come from having a successful business, not the other way around. Marius also talks a lot about the people involved, but he seems to be more impacted with the company business partners that he decided to work with than actually his project co-promoters.

A point made by Mikko focus instead on attitude change, stating that business failure should be seen like it is seen in the scientific method – it is accepted, assessed and the process is iterated until proven successful. He also talks about “taking the leap” is essential, insisting that the fear of failing is often enough to fail.

Brian shows a strong openness for failure, having conducted the interview in an open space and that he now knows how to fail better, repeatedly referring the affordable loss principle (Dew et al., 2009).

André admits changes in business practices, such as how he picked differently the founding team of his successful venture in comparison with his previous venture. He also asserts that the biggest investment an entrepreneur can make is of him, which is
vital for a successful new venture – being something he only followed after carefully planning and consideration, particularly when he started to feel a change was needed in his career.

Similar to what was observed with José cognitive changes, his identifiable behavioural mutations are also minimal. However, there is one important change relatable with his narrative – he admits that he never used the VC firm again and that he will be much more careful when selling equity at an early stage of a venture, adding that the risk mitigation might not be as benefitting due to the loss of control which might be fundamental latter on.

Focusing on Marius, it is important to point on he considers how easy it is to create a company. He values immensely his early knowledge on this subject and has developed a very proactive and can-do attitude that led him to create 4 companies at a young age. However, he shows even more progressions when the tells how he’d be proud to tell other others that he managed 3 companies, only to later realize that was not a positive thing at all – nobody would invest in a person with 3 projects and there was no way he could manage 3 successful companies. His behaviour changed and he admits to have focused much more, closing his first company and selling out of another. He is focusing almost 100% on his current and most successful venture.

Regarding the individuals attitude towards risk, Paulo admits that he likes risk and unstable environments. Failure does not appear to have a significant impact on him. Brian, in contrast, admits to taking higher risks after the failure – being more “all in” in projects, but also insinuating to calculate risk better nowadays since it’s a “more clever” investment. He justifies it directly with the fact that he knows that he can recover if he fails now.

Mikko, although, is a more conservative individual in terms of taking risk today, but he attributes it to age and wisdom rather than past negative experiences – as one gets older, the more suspicious one becomes.

André, on the other hand, claims shows a very calculated approach to risk. He admits that is derived from the large projects he ran in the IT company, that he enjoys risk in the sense that it makes him alert and ready – like the jitters an artist has before coming up on stage. He seriously condemns unconscious decisions from entrepreneurs that risk
too much without planning or realizing what they are risk, claiming preparation and aware of the possibility of failure should be very present.

Marius appears to apply also a more conservative approach to picking external partners and the responsibilities that he passes on to them.
5. Conclusions and discussion of the main lessons gathered

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

The dissertation’s aim was to contribute to the empirical literature of the consequences of BF, through the use of qualitative methods to better understand the social phenomenon – with focus on the costs and benefits that arise from it, along with all the cognitive and behavioural changes derived from the sensemaking and learning processes that the individual goes through.

This study defined a framework of analysis that took into account several stages of the business creation and closure process. It used Interpretative Phenomenological Analysis (Smith and Osborn, 2008), as first applied by Cope (2011) within this field. Through recorded semi-structured interviews, 6 personal narratives were gathered from successful entrepreneurs with confirmed previous failed experiences. The focus of the interviews was the experience of the failure, along with what lead up and followed the event. The case studies are purposive and yield from the north of Europe (Denmark and Finland) and the south of Europe (Portugal).

A total of over 7 hours of recordings were produced and transcribed. A summary of such narratives is available on Figures 3 and 4, organized per individual and inserted within the referred framework. Through the application of the IPA methodology, outputs were generated within the pre-defined framework and presented in this dissertation.

Calling back on the research questions initially drafted and the narratives previously analysed in the light of the pre-defined framework, a summary of the main lessons gathered is crucial to understand the full scope of this dissertation.

5.1. How the individual progresses and eventual new ventures develop

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

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

Also, there are key events that can be directly related with the creation of the future successful business – Brian met his future business partner that 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 he had throughout all his 4 companies. Business connections are known to be synergic, there is no surprise in observing the effect continues even when it amidst failure.

It is noteworthy to refer that some of the successful projects were already being started while the failures were taking place, most specifically by the end. Mikko was already quite involved in the first steps of the Nordic Business Forum when he sold the family business; and while Marius was preparing the 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 resorted to 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, in hand, generated relatively small social and psychological repercussions (Ucbasaran et al., 2013).

Still, it is discernable a few actions taken to restore normality to the individuals lives. Paulo admits 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 much likely also as an anticipatory grief sign (Shepherd et al., 2009). These actions are visible on the projects that are described as “fading”, for instance when André claims that he focused back on his day job or when Marius admits to have focused on creating new businesses rather than just investing on one.

Focusing on psychological costs, they were visible for some of the younger entrepreneurs but the serial experienced entrepreneurs appeared minimally affected. Mikko and Brian admit to being through quite some stress, while Marius feels that it would have been much worse had he not created other successful ventures by the time the first one failed. Paulo reduces his “post failure depression” to a 24-hour period,
while José merely admits to some frustration for nearing loss immunization. André rationalizes 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 with the case of Marius since he admits having affection towards the failed company.

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

It is also very easy to identify the helpfulness of certain gained skills during the BF, as Marius admits that he found it very useful to have learned how to set up a company in the first business or as Mikko claims that he learned how to manage a financial budget.

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

As similar to the costs/learning relationship, a smaller business scale investment does not necessarily mean that it does not yield important lessons for the individual. Brian claims 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 with much more money. This includes also time investment, with Marius and André both admitting to have gained much 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 declare that failing is a very stressful situation, the moment that the company is considered closed is somewhat a relief.

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

Marius describes vividly how he felt immediately after closing his first company, and not with negative feelings:

Actually, when we said to each other “Hey, okay, we’re stopped…”… 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 seating, how the weather was and the feeling in my body. It was a crazy feeling, only kind of positive somehow.

His detailed description signifies the importance 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 later after the BF. It is clear that he is tired of dealing with the issue. José also stresses the fact that he expected to shut down his venture much faster as it actually happened. He admits 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 have with personal debt issues and lack of source of income. Still, it might be relevant for the removal of the uncertainty that stressful for many by itself.

5.2. How individuals change business behaviours and practices in light of a failure event

In business, learning usually signifies 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.

The existing literature in terms of cognitive changes focuses on optimism (Ucbasaran et al., 2013), something this dissertation does not specifically address. Instead, it is focused on other cognitive changes, especially on the perception the individual has of himself, entrepreneurship and other life-related topics that were brought up in the non-rigidity nature of the interviews. The behavioural 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 something directly address in the course of this study.

I light of this, several key points were identified that could support the current literature, add other relevant information and indicate further paths to better know the phenomenon.
The main question lies in what way do the individuals change their business behaviours and practices in light of a previous failure event – something that turned out to be very observable and easily linked between the two different experiences.

For instance and as previously discussed, it is easy to associate the values and the measures that Paulo implemented in his successful company with the betrayal experience that he went through on his failure. He himself relates it on some levels, such as on how he made a much more tightly written contract between the owners of his business to avoid litigious and ill intentions. Brian also claims that he changed how he pick teams, much as like André refers when he talks that he picked his partners in a much different way than he did when he started his failed project.

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

A specific type of behaviour worth of analysing is the individual’s actions towards risk after failure. While it is clear 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 keep trying, with many reporting increasing confidence. André, Brian and Marius also admit that they invest more of themselves and take more risk in the projects, claiming to value more attitudes such as a “commitment”, “focus” and “100% in” within their projects.

Of course these behavioural changes also have significant cognitive change accompanying them. As stated, confidence and self-awareness of one’s skill is repeatedly brought up by the interviewees. Brian and Mikko also speak of knowing that they can survive failure is important, most likely increasing their resilience. This might indeed support Shepherd’s (2003) conclusion that being aware of these normal negative emotions derived from failure can indeed reduce stress associated with it.
André is proud of his failure and Marius calls it a unique learning experience. This outlook is mostly value by the younger individuals, while the older ones tend not to focus so much on it – although it still is visible some changes in their behaviour (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 admits to have never used venture capitalist money again, admitting that he will be much more careful if he uses that kind of financing method in the future.

5.3. 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 changes on the career path as a coping mechanism to overcome financial costs (Ucbasaran et al., 2013). Ucbasaran et al.’s (2013) study, however, does not interpret career changes in such a strict way (although one of the individuals admits such a practice) – it tries to identify smaller shifts in one’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 on how the careers might possibly progress – after all, by design, these are considered people who followed and became successful entrepreneurs.

But even within the entrepreneur way of life, one could find differences and deviations between the success and the 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 in order to associate himself with such a project that could project him to international market.

In truth, all subjects 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 in 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 investing in project within the music
equipment industry – in fact, he admitted that it was an extremely difficult industry to enter.

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

5.4. 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? – paths for further research

A lifestyle of an entrepreneur 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 achieving 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 he foresaw the highest return Paulo, after having businesses in the IT industry, real estate industry and the leisure industry, decided to stop his professional activity 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 actions and decisions of the individuals on the short term, but a wider view shows that success can achieved in spite of unfavourable 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, favourable 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 present 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 asserted that this study only focuses on individuals that successfully tried again to launch a business of their own after previously failing. However, insufficient evidence can support or steer future research on a path to better identify the factors that hinder or incentive action of future entrepreneurial efforts, either being from individual’s actions or originated from the context.

For example, as it is discussed in the topic of financial costs moderators, all the cases had significant help from others or other sources of incomes that shielded them from more damaging costs. This could certainly be an important factor for their careers. It is also an apparently poorly research topic, since most of the institutional theory on 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 changes could also prove to be pivotal for the future outcomes. A good example is when Paulo sternly affirms that managing a business is what he likes, he wants to lead and to be the boss. He also shows great self-awareness to admit 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 a large 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 invest in his last and more successful business if he had not learn “what to do and what not to do”, if he did not tried different things and projects or if he had only focused in one project. Also, of course, hadn’t he created the first business, he wouldn’t have known his current partners that helped him create the successful company.
Still on the issue on factors that might generate or prevent action, a common important narrative point is related to how the business venture ends. Individuals seem to value a decisive and fast closure, as it seems that the source of stress is mainly originating from “failing” than the actual “failure”. The contrast is also visible, on cases that lagged on through time and from stakeholder to stakeholder, battling on procedurals and legal disputes.

Even if the individual wishes to try again or keep the venture going (as previously referred a possible method of anticipatory grieving (Shepherd et al., 2009)), when the time comes that the business is inevitably to shut down there is evidence that the faster it happens the better it is for the individual to move on – much like removing a bandage in a firm and fast pull.
Figure 3: Summary of Narrative Accounts of the Participants – Part 1

Antecedents

Paulo works for a German multinational. He later starts several companies, most have failed but one is profitable.

Mikko starts a School Products company that he later leaves.

Brian enrolls in the JA programme and creates a project of an industrial product that never leaves the prototype stage.

Business Creation

Paulo, along with an old friend and two local partners, invests in a leisure business with a Karting track. Business thrives.

Mikko steps into the family business, which is declining. He immerses himself into the issues to bounce back, nearly bankrupting the company.

Brian re-enlists the JA programme for a much more serious project with a longer-term scope. The team wins the local competition and performs well in the European level, acquiring numerous potential customers and sponsors.

Business Failure

Paulo suffers significant financial issues and is still in a legal battle to this day. He admits that the environment he likes to work affects his family, that it is only possible if they give him full support. He adds that he doesn’t care too much about what other people think and that he doesn’t let failures affect his confidence.

Mikko stresses losing significant money for his age, specially considering that it is family money. He adds that he was not a phasing person to be with during that time, mistreating friends and family during the failure. His stress levels were making him miserable and did not enjoy being judge for his failure by his local peers.

Brian did not have personal investments in the project, however he seems very affected since he lost the stakeholders sponsorship money to whom he feels like he has broken their trust. He has a long fall-out with his partners, along with some shame of failing what he calls “his first big success”.

Issues arise within the company and a buyout is arranged so that Paulo and a co-owner own a 100% of the company. The two other partners do not respect the terms, and start legal procedures that drive the company to the cease of operations.

Mikko struggles to keep the business open for a year. He couldn’t apply his longer term plans but manages to find a buyer and sells the business at a loss.

Paulo stresses that he does not get depressed for more than 24 hours. He chooses to completely change from the industry and type of project he usually invested in, going back to college to refresh his knowledge and find his next venture.

Business

Sensemaking and Learning Process

Paulo struggles to keep the business open for a year. He couldn’t apply his longer term plans but manages to find a buyer and sells the business at a loss.

Mikko stresses that “knowing it will end” helped power through; afterwards he took a month off “just to completely relax”. He gives positive twist to failure and shortly after joins the Nordic Business Forum.

Brian admits that shutting down the project was positive for his stress levels and mental health, and that he was fortunate that he had already other projects lined that kept him busy – otherwise he concludes that he would most likely do little for a long period of time.

Brian says that he has much more self-confidence, since he has proof that he can fall but recover. He is also more aware of how he reacts. He now takes much higher risks, but he also recognizes that he is better prepared to fail, planning it if needed.

Consequences

Mikko appears to have developed a positive attitude towards failure, deeming it a success when it results in learning. He also diminishes the importance of money when compared with learning experiences and relationships.

Brian says that he has more self-confidence, since he has proof that he can fall but recover. He is also more aware of how he reacts. He now takes much higher risks, but he also recognizes that he is better prepared to fail, planning it if needed.

Brian admits that shutting down the project was positive for his stress levels and mental health, and that he was fortunate that he had already other projects lined that kept him busy – otherwise he concludes that he would most likely do little for a long period of time.

Brian says that he has much more self-confidence, since he has proof that he can fall but recover. He is also more aware of how he reacts. He now takes much higher risks, but he also recognizes that he is better prepared to fail, planning it if needed.

Label:

- • Paulo’s Narrative
- • Mikko’s Narrative
- • Brian’s Narrative

Source: Author’s elaboration
José obtains an MBA and also becomes an international IT company part of a big retail conglomerate.

André starts his career in Wipro, an international IT company part of a big international IT company part of a big retail conglomerate.

José obtained a MBA and also becomes an international IT company part of a big retail conglomerate.

André starts an automation engineering company with 3 other partners. He goes on to invest some money and to gather clients, while prospecting within the market.

The business is developed in high school with 2 other partners. The problem addressed is related with people suffering from perfume allergy, developing a solution through a patch applicable on the skin. Within the JA-YE, they win a competition Denmark and go to the European level, gaining a lot of press, and attracting the attention of a company that focused on the development of medical products. Afterwards, they gather financing from a Danish government fund. They then set off to developing the product, proof of concept and try to sell the patent.

The company applied for a patent and was talking with potential buyers, but then the financial crisis reached Europe. The prototype also proved to be more expensive for production than expected. By the end, Marius managed to get back most of the ownership for free, when they broke off from the medical products development company. The focus moved to a production company, but eventually the focus shifted again and it was decided that the company would end.

The business was picking up with prospects of international retailers, when Europe was struck with the financial crisis in 2008. The initial order was halted at 80 items of a total 300, with the client breaking the contract due to lack of liquidity. More capital was invested and the company managed to sell a few exports until 2010. The project was not achieving desirable results and struggling for finance, until it was shut down.

André's narrative revolves around an initial project he embarked on in high school, which he describes as successful. He mentions that it was a relief to him, as it was a way for him to gain recognition and prove his abilities. However, he also notes that it was a more personal failure, explaining that it had a personal value. He also admits that its failure was a relief to him.

José feels the need to state that he was not always in charge – he started as a consultant, representing INESC, his role was mainly and he "wrapped the project". He also talks a lot about agency risks, as the three-way relationship did not always work as he was employed by one of the stakeholders. When talking about lessons, he stresses how one shouldn't wear two shirts, and that financing through equity sale might not be that great of an option.

Marius admits that he knows what he wants to do, mainly due to the failed business. He claims that it was the kind of right product, but not exactly what he wanted. He also admits that he was initially proud to say that he was the owner of 3 companies, but later realized that it was indeed bad. He learned that focus and commitment are important to the success of a company, and when his last successful project appeared, he shifted almost his undivided attention to it.

José confirms financial losses for all parts, but he does not consider his own significant. When asked about his relationship with the VC firm, José claims that at least what he thought of them was drastically changed negatively. With INESC, on the other hand, he states that they presented greater empathy, although at the end of the project they distanced themselves, creating colder relationships.

Marius says that he had some financial losses, having put some money in when a business angel invested. He stresses more the large amount of time spent. Marius admits he did not feel any social stigma, since he had other successful projects at the time and his successful project went public 3 or 4 months later. Marius calls the failed company his "little darling company" more than once, explaining that it had a personal value. He also admits that its failure would have much harder if he hadn't the other companies, it would have been a 'more personal failure'.

Marius admits that they weren't good at "learning from above", missing the effects of the crisis on the startup. He also thinks they moved too slowly, and the fact that the partners took most of the business tasks was demotivating. He talks a lot about having fun and learning through the project. He also clearly shows an affection for the company, calling it "our little darling" and admitting that he should have closed earlier. He shows no regrets and is grateful for the lessons and experience, focusing on how he learned to create a company at the age of 18 or 19. He also claims that after 7 years, it was a relief to close the project.

André acknowledges financial losses, but admits they were minimal due to his other income. He admits that he didn't pick the best partners, being chosen much by friendship rather than professional need. He would not repeat a project with the same people. He adds that he did not feel any social stigma, justifying by the low risk taking attitude. André also dismisses any psychological costs.

André defines 2 main lessons derived from this project – one, one needs to be completely dedicated to a project in order to be successful; two, choose the right people. He talks about how the project failed, people naturally drifted from the project and that it is attributed to the investment and risk they put in the project.

Marius admits that he had some financial losses, having put some money in when a business angel invested. He stresses more the large amount of time spent. Marius admits he did not feel any social stigma, since he had other successful projects at the time and his successful project went public 3 or 4 months later. Marius calls the failed company his "little darling company" more than once, explaining that it had a personal value. He also admits that its failure would have much harder if he hadn't the other companies, it would have been a 'more personal failure'.

Marius admits that he knew what he wants to do, mainly due to the failed business. He claims that it was the kind of right product, but not exactly what he wanted. He also admits that he was initially proud to say that he was the owner of 3 companies, but later realized that it was indeed bad. He learned that focus and commitment are important to the success of a company, and when his last successful project appeared, he shifted almost his undivided attention to it.

Marius says that he had some financial losses, having put some money in when a business angel invested. He stresses more the large amount of time spent. Marius admits he did not feel any social stigma, since he had other successful projects at the time and his successful project went public 3 or 4 months later. Marius calls the failed company his "little darling company" more than once, explaining that it had a personal value. He also admits that its failure would have much harder if he hadn't the other companies, it would have been a 'more personal failure'.
Summing up, evidence gathered showed that previous failure impacted individuals strongly. Such impact appears to be conditioned by the individual’s experience and age, and one’s own perception of blame within the failure. However, it does not appear to be affected by the size of the project or the value of financial losses with these particular individuals.

Moreover, certain antecedents, specifically, through the involvement of institutions in the individuals’ lives, can significantly moderate the costs suffered after the failure. Some case studies reported a relief sensation when the failed organization closed. It is possible that a quick cease of contact with the failure might be beneficial, as a contrast of a case that endured on a long legal battle proved.

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 of this study. Also, some individuals were already developing or already had developed their next full-time project while the failure occurred, having immediately changed focus afterwards.

Practical implications can be drafted from these conclusions. For young and aspiring entrepreneurs, their future ventures should be seen previously as a learning experience and should be prepared with serious consideration for the failure. They should have their expectations adapted 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 might be very significant in the future. It was also found evidence of the development of key cognitive and behavioural changes that are directly related to the failure by the individuals and are considered crucial for the current success. Other key aspects that influenced success were identified from previous failure, like a past event of meeting a future business partner or connection.

Considering implications for institutions, it has been described cases where entities hindered or enlarged the aftermath costs. Regarding NGO and education professionals, failing to maintain a business venture is still a very significant learning experience – especially at a young age. Within these cases, 3 individuals participated in such programmes and 2 launched businesses within a prepared risk-controlled framework,
later growing out of it. Thus, a preparation for a controlled environment for failure appears to produce truly interesting results. Regarding public institutions, there were positive aspects produced with the reduced risk funding programmes that some individuals opted for. These benefits appear to have been mostly on the level of the individuals that owned the business. Cost enhancers were also visible, specifically with the complications that some individuals had to close their venture. Long litigious battle was the main reason for this, and should be considered very detrimental for the entrepreneurial development within a country.

Implications for further developing this field are mostly related with the still present need of further empirical evidence (both quantitative and qualitative). This study focuses on individuals that failed and then had success on 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 analysed, as it 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 less psychological costs. Similar to other studies, context is still very present and impactful within the narratives of the entrepreneurs, as are the antecedents of the failure – although they are not a focus of this study. Also, several relationships were established between previous facts of the failure, expectations of the venture, and the process of failure itself; along with the aftermath costs endured by the individuals and the sensemaking process.
References

Altman, E.I. (1968), “Financial ratios, discriminant analysis and the prediction of corporate bankruptcy”, *The Journal of Finance*, Vol. 23, Nº 4, pp. 589-609.

Altman, E.I. (1984), “The success of business failure prediction models: An international survey”, *Journal of Banking & Finance*, Vol. 8, Nº 2, pp. 171-198.

Arasti, Z. (2011), “An empirical study on the causes of business failure in Iranian context”, *African Journal of Business Management*, Vol. 5, Nº 17, pp. 7488-7498.

Aronson, E. (2011), *The Social Animal*, Tenth Revised Edition, Basingstoke: Palgrave MacMillan.

Baumard, P. and Starbuck, W.H. (2005), “Learning from failures: Why it may not happen”, *Long Range Planning*, Vol. 38, Nº 3, pp. 281-298.

Becchetti, L., Castelli, A. and Hasan, I. (2010), “Investment–cash flow sensitivities, credit rationing and financing constraints in small and medium-sized firms”, *Small Business Economics*, Vol. 35, Nº 4, pp. 467-497.

Bell, E. and Taylor, S. (2011), “Beyond letting go and moving on: New perspectives on organizational death, loss and grief”, *Scandinavian Journal of Management*, Vol. 27, Nº 1, pp. 1-10.

Borrajo, M. L., Baruque, B., Corchado, E., Bajo, J., and Corchado, J. M. (2011), “Hybrid neural intelligent system to predict business failure in small-to-medium-size enterprises”, *International Journal of Neural Systems*, Vol. 21, Nº 4, pp. 277-296.

Bruton, G.D., Khavul, S. and Chavez, H. (2011), “Microlending in emerging economies: Building a new line of inquiry from the ground up”, *Journal of International Business Studies*, Vol. 42, Nº5, pp. 718-739.

Camillo, A.A., Connolly, D.J. and Kim, W.G. (2008), “Success and failure in northern California critical success factors for independent restaurants”, *Cornell Hospitality Quarterly*, Vol. 49, Nº 4, pp. 364-380.

Cannon, M.D., and Edmondson, A.C. (2001), “Confronting failure: Antecedents and consequences of shared beliefs about failure in organizational work groups”, *Journal of Organizational Behavior*, Vol. 22, Nº 2, pp. 161-177.
Cardon, M. S., Stevens, C. E., and Potter, D. R. (2011), “Misfortunes or mistakes?: Cultural sensemaking of entrepreneurial failure”, *Journal of Business Venturing*, Vol. 26, Nº 1, pp. 79-92.

Chen, J.H. and Williams, M. (1999), “The determinants of business failures in the US low-technology and high-technology industries”, *Applied Economics*, Vol. 31, Nº 12, pp. 1551-1563.

Ciampi, F., and Gordini, N. (2013), “Small enterprise default prediction modeling through artificial neural networks: An empirical analysis of Italian small enterprises”, *Journal of Small Business Management*, Vol. 51, Nº 1, pp. 23-45.

Cope, J. (2011), “Entrepreneurial learning from failure - An interpretative phenomenological analysis”, *Journal of Business Venturing*, Vol. 26, Nº 6, pp. 604-623.

Deakin, E. B. (1972), “A discriminant analysis of predictors of business failure”, *Journal of Accounting Research*, Vol. 10, Nº 1, pp. 67-179.

Dew, N., Sarasathy, S., Read, S., and Wiltbank, R. (2009), “Affordable loss: Behavioral economic aspects of the plunge decision”, *Strategic Entrepreneurship Journal*, Vol. 3, Nº 2, pp. 105-126.

Dimitras, A. I., Slowinski, R., Susmaga, R. and Zopounidis, C. (1999), “Business failure prediction using rough sets”, *European Journal of Operational Research*, Vol. 114, Nº 2, pp. 263-280.

Dimitras, A. I., Zanakis, S. H. and Zopounidis, C. (1996), “A survey of business failures with an emphasis on prediction methods and industrial applications”, *European Journal of Operational Research*, Vol. 90, Nº 3, pp. 487-513.

Edmister, R. O. (1972), “An empirical test of financial ratio analysis for small business failure prediction”, *Journal of Financial and Quantitative Analysis*, pp.1477-1493.

Everett, J. and Watson, J. (1998), “Small business failure and external risk factors”, *Small Business Economics*, Vol. 11, Nº 4, pp. 371-390.

Garcia-Gallego, A. and Mures-Quintana, M. (2013), “Business Failure Prediction Models: Finding the Connection between their Results and the Sampling
Method”, *Journal Of Economic Computation And Economic Cybernetics Studies And Research*, Vol. 3, Nº 3, pp. 157-168.

Hasan, I., and Wang, H. (2008), “The US bankruptcy law and private equity financing: empirical evidence”, *Small Business Economics*, Vol. 31, Nº 1, pp. 5-19.

Honjo, Y. (2000), “Business failure of new firms: an empirical analysis using a multiplicative hazards model”, *International Journal of Industrial Organization*, Vol. 18, Nº 4, pp. 557-574.

Jakubík, P., & Teplý, P. (2011), “The JT index as an indicator of financial stability of corporate sector”, *Prague Economic Papers*, Vol. 2011, Nº 2, pp. 157-176.

Kim, S. Y. (2011), “Prediction of hotel bankruptcy using support vector machine, artificial neural network, logistic regression, and multivariate discriminant analysis”, *The Service Industries Journal*, Vol. 31, Nº 3, pp. 441-468.

Kirkwood, J. (2007), “Tall poppy syndrome: implications for entrepreneurship in New Zealand”, *Journal of Management & Organization*, Vol. 13, Nº 4, pp. 366-382.

Langdridge, D. (2007), *Phenomenological Psychology: Theory, Research, and Method*, Glasgow: Pearson Education.

Li, H. and Sun, J. (2011), “Principal component case-based reasoning ensemble for business failure prediction”, *Information & Management*, Vol. 48, Nº 6, pp. 220-227.

Li, H. and Sun, J. (2012), “Forecasting business failure: The use of nearest-neighbour support vectors and correcting imbalanced samples—Evidence from the Chinese hotel industry”, *Tourism Management*, Vol. 33, Nº 3, pp. 622-634.

Li, H. and Sun, J. (2013), “Predicting Business Failure Using an RSF-based Case-Based Reasoning Ensemble Forecasting Method”, *Journal of Forecasting*, Vol. 32, Nº 2, pp. 180-192.

Lindblom, C. E. (1959), “The science of ‘muddling through’”, *Public Administration Review*, Vol. 19, Nº 2, pp. 79-88.

Mantere, A., Aula, P., Schildt, H. and Vaara, E. (2013). “Narrative attributions of entrepreneurial failure”, *Journal of Business Venturing*, Vol. 28, Nº 4, pp. 459-473.
McGurr, P. and DeVaney, S. (1998), “Predicting business failure of retail firms: an analysis using mixed industry models”, *Journal of Business Research*, Vol. 43, Nº 3, pp. 169-176.

Mellahi, K. and Wilkinson, A. (2004), “Organizational failure: a critique of recent research and a proposed integrative framework”, *International Journal of Management Reviews*, Vol. 5, Nº 1, pp. 21-41.

Miller, D. (1977), “Common Syndromes of Business Failure”, *Business Horizons*, Vol. 20, Nº 6, pp. 43-53.

Pal, J., Medway, D. and Byrom, J. (2011), “Deconstructing the notion of blame in corporate failure”, *Journal of Business Research*, Vol. 64, Nº 10, pp. 1043-1051.

Politis, D. (2008), “Does prior start-up experience matter for entrepreneurs' learning?: A comparison between novice and habitual entrepreneurs”, *Journal of Small Business and Enterprise Development*, Vol. 15, Nº 3, pp. 472-489.

Politis, D. and Gabrielsson, J. (2009), “Entrepreneurs' attitudes towards failure: an experiential learning approach”, *International Journal of Entrepreneurial Behaviour & Research*, Vol. 15, Nº 4, pp. 364-383.

Pozuelo Campillo, J., Labatut Serer, G., Veres Ferrer, E. (2013), “Validity of the financial information in the processes of insolvency. A study of the Spanish small enterprise”, *Cuadernos de Economía e Dirección de la Empresa*, Vol. 16, Nº 1, pp. 29-40.

Pušnik, K. and Tajnikar, M. (2008), “Technical and cost efficiencies as determinants of business failures of small firms: the case of Slovenia”. *Eastern European Economics*, Vol. 46, Nº 1, pp. 43-62.

Rauch, A. and Rijsdijk, S.A. (2013), “The effects of general and specific human capital on long-term growth and failure of newly founded businesses”, *Entrepreneurship: Theory and Practice*, Vol. 37, Nº 4, pp. 923-941.

Rehn, A. and Lindahl, M. (2012), “Muddling through in innovation - On incremental failure in developing an engine”, *Journal of Business Research*, Vol. 65, Nº 6, pp. 807-813.
Samuels, L.B., Joshi, M.P. and Demory, Y. (2008), “Entrepreneurial failure and discrimination: lessons for small service firms”, *The Service Industries Journal*, Vol. 28, № 7, pp. 883-897.

Sharma, S. and Mahajan, V. (1980), “Early warning indicators of business failure”, *The Journal of Marketing*, Vol. 44, pp. 80-89.

Shepherd, D. A., (2003), “Learning from business failure: Propositions of grief recovery for the self-employed”, *Academy of Management Review*, Vol. 28, № 2, pp. 318-328.

Shepherd, D. A., Wiklund, J. and Haynie, J.M. (2009), “Moving forward: Balancing the financial and emotional costs of business failure”, *Journal of Business Venturing*, Vol. 24, № 2, pp. 134-148.

Smith, J.A., and Osborn, M. (2008), “Interpretative phenomenological analysis” in Smith, J.A. (editor), *Qualitative Psychology: A Practical Guide to Research Methods*, Second Edition, London: Sage Publications, pp. 51-80.

Stokes, D., and Blackburn, R. (2002), “Learning the hard way: the lessons of owner-managers who have closed their businesses”, *Journal of Small Business and Enterprise Development*, Vol. 9, № 1, pp. 17-27.

Turner, D.W. (2010), “Qualitative interview design: A practical guide for novice investigators”. *The Qualitative Report*, Vol. 15, № 3, pp. 754-760.

Ucbasaran, D., Shepherd, D.A., Lockett, A. and Lyon, S.J. (2013), “Life after business failure - the process and consequences of business failure for entrepreneurs”, *Journal of Management*, Vol. 39, № 1, pp. 163-202.

Ucbasaran, D., Westhead, P. and Wright, M. (2009), “The extent and nature of opportunity identification by experienced entrepreneurs”, *Journal of Business Venturing*, Vol. 24, № 2, pp. 99-115.

Ucbasaran, D., Westhead, P., Wright, M. and Flores, M. (2010), “The nature of entrepreneurial experience, business failure and comparative optimism”, *Journal of Business Venturing*, Vol. 25, № 6, pp. 541-555.

Wagner, S., and Cockburn, I. (2010), “Patents and the survival of Internet-related IPOs”, *Research Policy*, Vol. 39, № 2, pp. 214-228.
Watson, J. and Everett, J.E. (1996), “Do small businesses have high failure rates?: Evidence from Australian Retailers”, *Journal of Small Business Management*, Vol. 36, pp. 45-62.

Wezel, F. C. and van Witteloostuijn, A. (2006), “From scooters to choppers: product portfolio change and organizational failure: evidence from the UK motorcycle industry 1895 to 1993”, *Long Range Planning*, Vol. 39, Nº 1, pp. 11-28.

Yin, R. K. (2009), *Case study research: Design and methods*, London: Sage Publications.

Zhang, G., Y Hu, M., Patuwo, E.B., & C Indro, D. (1999). “Artificial neural networks in bankruptcy prediction: General framework and cross-validation analysis”, *European Journal of Operational Research*, Vol. 116, Nº1, pp. 16-32.

Zopounidis, C. and Doumpos, M. (1999), “Business failure prediction using the UTADIS multicriteria analysis method”, *Journal of the Operational Research Society*, Vol. 50, Nº 11, pp. 1138-1148.
Appendix

Appendix A – Data Collection Preparation
A.1 Data Collection

As defined during this dissertation, the case analysis data will be collected through semi-structured interviews with the individuals are considered of interest for the research aim.

Figure 5: Research Process Methodology

The cases selected will be purposive, meaning that a shortlist of possible individuals known publicly for their success and failures will be previously drafted. To ensure an accurate case selection the following pre-requisites was drafted for eligible individuals that may participate in 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 with a business failure situation as defined in Section 2.1, preferably with one or several of the following conditions:
   i) Part of founding movement of the venture;
   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 referred by Watson and Everett, 1996);

d) The successful business should have a significant commercial success with a considerable profit rate enough to support the founders or enough recognized potential growth.
A pre-screening will verify if the proposed individual qualifies for the study and will collect initial demographic data for future references. A thorough process will help a future validation of the outputs.

The interview can either take place face-to-face or, if a physical meeting is not possible, through online conferencing. It will semi-structured in nature and will have a previously drafted script that will help collect data for a future analysis.

The data will be then converted to information outputs through the use of an Interpretative Phenomenological Analysis, as discussed on Section 3 of this dissertation.

A tracking tool will be developed, aimed to gather all the related information about each single case. Such tool will contain: a) fundamental guidelines for a valid process; b) summary checklist to ensure all pre-defined steps are taken; c) input fields to assure the collection of some key data; d) the script prepared for each interview; e) the actual transcripts of the interview; f) relevant notes taken by the author during the interview; and g) the outputs generated from the transcripts, as process by the IPA methodology and categorized within the pre-defined framework.

These documents, along with all the recordings, will be archived and kept for future references.

A.2 Guidelines for preparing an effective process

Basing on Daniel W. Turner, III’s Qualitative Interview Design: A Practical Guide for Novice Investigators (2010), a set of guidelines was compiled to ensure a successful data collection process:

Pre-Interview

(1) Setting:
- Make sure the interviewee is comfortable and can the interviewer clearly;
- Confirm that there is no significant background noise;
- Double check that, if the interview is conducted through an online conferencing communication method, the sound is clear and the connection is reliable;
(2) Explain the Purpose;
- Communicate the aim of the study;
- Explain the Scientific and Practical pertinence of the study;
- Explain the purpose of the interview;

(3) Address terms of confidentiality;
- Explain the importance of the full disclosure of information;
- Prepare a Non-Disclosure Agreement, if necessary;
- Assure that the study will not employ any financial or organizational details, as it will emphasize on the individual;

(4) Explain the format of the interview;
- Explain the method behind a semi-structured interview;
- Elaborate on the central theme of the interview, but let know that deviation is possible and sometimes very useful;
- Ask for honest answers, not to worry on faded details;

(5) Indicate the duration of the interview;
- The expected duration, but not to worry regarding time-constraints;

(6) Explain future contact details;
- After the interview, send contact details along with a thank you note;
- Send a copy of the completed study once finished and approved;

(7) Ask if the interviewee has any questions;
- Make an effort to assure the interviewee is comfortable and ready to undertake the stressful situation;

(8) Double check interview resources and recording methods.
- Confirm the dictation machine is working properly, recording at desirable volume and with clear sound;
- Confirm the note taking material is operational and nearby;
- Confirm the interview script and structure is at hand;
A.3 Case Selection and Contact Method

Case Research

The case selection is purposive by nature, meaning that the case studies were first determined by researching individuals that might fit the pre-defined criteria through various methods. This initial search should be conducted through internet search, online research advertisements and personal references.

For this purpose, a research flyer with relevant information will be developed and propagated through social networks, academic communities and personal references. After this initial prospecting and lead development, a direct contact will ensue. An e-mail template was developed for this matter:

a) Contact E-mail Template (English)

Dear XXX,

My name is Artur Raimundo Dias, senior student of the Master in Management from the Economics Faculty of the University of Porto, and I’m contacting you to formally invite you to participate in a research project that I’m currently developing, under the supervision of Professor Aurora Teixeira.

The main research topic focuses on Business Failure and its implication on future success, including a qualitative analysis of the phenomenon from the individual’s point of view.

The unique professional experience that you offer appears to match the pre-defined criteria for this study and I personally feel that it could bring a significant contribution to the research, hopefully aiding future entrepreneurs to prepare for failure or to aid them on their recovery.

With this goal, I would like to talk to you to fully understand if you qualify for this study. Attached you’ll find a document that fully explain the study, what is expected of the participants and what are the eligibility requirements.
Thank you for your availability and cooperation.

Best regards,
Artur Raimundo Dias

b) Contact E-mail Template (Portuguese)

Caro XXX,

O meu nome é Artur Raimundo Dias, finalista do Master in Management da Faculdade de Economia da Universidade do Porto, e venho por este meio formalmente convidá-lo/la para participar num projecto de investigação que estou atualmente a desenvolver, com a orientação da Professora Aurora Teixeira.

O tema centra-se na investigação do Business Failure, com um foco nas implicações dos insucesso para o sucesso future do indivíduo. Este estudo irá recorrer a métodos qualitativos e irá centrar-se no ponto de vista do empreendedor.

A experiência profissional única que oferece aparenta coincidir com os critérios pré-definidos para este estudo, sendo que acredito que poderá contribuir significativamente para a investigação, assim como poderá ajudar futuros empreendedores a lidar com os seus insucessos.

Com isto em mente, gostaria de conversar consigo para confirmar a sua elegibilidade para este estudo. Em anexo segue um documento que explica não só o objectivo da dissertação, assim como o que é esperado dos participantes e quais os critérios de elegibilidade.

Com este objectivo, gostaria de o/a convidar para uma entrevista formal de forma a recolher dados qualitativos. O encontro irá focar no estudo de caso do seu negócio passado que resultou num insucesso, sendo que será gravado para posterior análise.
Pre-Screening
A Pre-Screening stage will occur prior to the data collection interview, to ensure that the criteria defined for the study are completely fulfilled by the purposive sample.

It will be an opportunity to gather demographic information, as well an opportunity to get a first account of both the failed and the successful business along with the role the individual had with both organizations.

A.4 Semi-Structured Interview Guidelines and Interview Script

This study will be using semi-structured interviews to obtain the data from the individuals, the most common interview method used in phenomenological research (Langdridge, 2007). This kind of interview will allow more freedom from the interviewee, not locking him/her into a rigid questionnaire, allowing a more free speech on the topic/subject controlled by the interviewer. The more flowed conservation could be beneficial since the study deals with significant personal events from the individual’s past.

Specific questions for each topic should be written, taking into consideration that a preferable approach should start from the most general to the most specific. The interviewee should be allowed to roam within the boundaries of the topic, and can be incentivized to follow a certain specific direction through signals of encouragement from the interviewer, such as ‘go on’ and ‘tell me more’. However, if the conversation strays off topic, it should be politely corrected in order to continue to produce useful data (Langdridge, 2007).

Said questions should also be written in an open fashion to allow for a less constrained ‘yes or no’ type of reply, since more information could be drawn. The questions should be neutral in nature to avoid any possible steering of the answer and should be as simple
as possible to avoid confusion or intimidation (Langdridge, 2007). More complex issues should also be divided into multiple questions and the interviewer should be ready to elaborate a question differently in case the interviewee does not fully comprehend it.

The interview itself should be set in a relaxed and controlled environment, enjoyable for both the interviewee and interviewer. The rhythm should be stress-free and the interviewee should dictate the pace as it comforts him/her the most. Interruptions when the interviewee is talking should be avoided, even if the discussion topic is not appropriate – the correct response should be done once he/she is finished speaking, through a request to shift back to where the conversation should be headed (Langdridge, 2007).

A foreseeable characteristic of the interviews that might occur is that they may not take place physically, being conducted through online conferencing software. As Langdridge (2007) remarks, there are constraints in terms of perception since all senses are not available for the communication channel. An available video feed will certainly help the data collection, since there will be less absence of possible visual signals from the interviewee. However, it has the clear advantage of having a wide geographical reach not always possible physically and a much more resourced transcript since it allows for digital audio and video recording.

*Interview Script*

The interview will have a non-rigid script, which is derived from the theoretical framework developed on Section 2.3 (see Figure 1). The questions are divided for each of the considered analysis factor and their function is to guide the conversation rather than impose it upon the interviewee.
Figure 6: A Theoretical Framework for Studying the Process of Business Failure for the Individual

Source: Author’s compilation.

Antecedents to the Failure

- Tell me about your most significant failure.
- What led to that failure? Did you foresee it?
- How many close partners did you work with?

The Failure

- How did the company close?
- Why did the company close?

- **Financial Costs**
  - Were there significant financial loses for you?
  - How did you manage them? Were you deprived from a substantial income? Did you manage to keep your lifestyle?

- **Social Costs**
  - And what about your partners?
  - Do you still keep in touch with them? Have you ever gone into business with them again?
  - Was your personal relationships impacted in any way from this experience?

- **Psychological Costs**
  - Do you consider yourself affected by the failure?
  - Did the failure affect your willingness to participate in another project? Were you stimulated or hindered?
  - Were you ashamed of the failure?
Sensemaking and Learning

- Sensemaking
  - How did the failure make you feel? How important was it for you?
  - How did you react to the failure in the following months?
  - Who’s to blame for the failure? How did you rebound?

- Learning
  - What main lessons did you take from the failure?
  - Do you consider them positive/significant?

Outcomes

- Cognitive
  - How was the opinion of you affected by the experience?
  - Do you feel more confident/prepared nowadays?
  - Do you see your role in the organizations you participate differently since this experience?

- Behavioural
  - Do you consider yourself a person that takes more or less risks after the failure?
  - What business or personal practices changed due to the failure?