VENTURE FAILURE: COMMONALITIES AND CAUSES

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ABSTRACT

We discuss venture failure as the first stage of a work in progress process, with stage two consisting of an empirical study in a predetermined entrepreneurial setting. This study places emphasis on Stage I, with the aim of developing a conceptual framework to facilitate the success of new ventures commenced by nascent and novice entrepreneurs. We place emphasis on the success of entrepreneurs, as opposed to their ventures. We add to the literature by adapting and integrating many schools of thought on venture failure, defining venture failure as a deviation from the entrepreneurs' desired expectations. We thus differentiate between the entrepreneurs' failure and venture failure. We further place emphasis on habitual and serial entrepreneurs, concluding that such entrepreneurs are most often successful in their own right. We categorise six generic failure causes, and the interpretation thereof. Upon development of these constructs, Stage 2 incorporates an empirical study, whereafter a conceptual model of failure reducing initiatives will be proposed.

INTRODUCTION

"Most new ventures fail", appears to be a consensus among entrepreneurship scholars; Timmons and Spinelli (2007 84) even claim that it is the rule and not the exemption:

> "While government data, research and business mortality statisticians may not agree on the precise failure and survival figures for new business, they do agree that failure is the rule and not the exception".

On the other hand, a decade ago already, Abdelsamad and Kindling (1978 24) emphasized that although it is the rule, by recognizing the failure causes, some of the failures can be avoided:

> "Although failures cannot be completely avoided in a free enterprise system, the failure rate could be reduced if some of its causes are recognized and preventive action is taken".

Although many studies analyse business failures by defining failure and finding the main pitfalls that may cause the failure (e.g. Abdelsamad and Kindling 1978; Richardson et al. 1994; McGrath 1999; Mitchell et al. 2004; McKenzie and Sud Forthcoming), studies that give a method on how to prevent venture's failure are scant. Stokes and Blackburn (2002), Singh, Corner and Pavlovich (2007) and Cope, cave and Eccles (2008) make one more step forward and explore how entrepreneurs cope with the failure, and learn from it, so it can help them in their next venture.

This work in progress research will define venture failure and discuss venture failure's causes as known in the academic literature. The aim of the final research is to create a conceptual framework that can help nascent and novice entrepreneurs succeed in their ventures. The research will broaden the works of Stokes and Blackburn (2002) and Cope et al (2008) on the subject of entrepreneurs learning from experience, by expanding towards studies from the experience of others without the need of failing themselves.

LITERATURE REVIEW

The definition of business failure

When attempting to define failure, few questions occur; the first is who defines failure and the second is how to define it. One can argue that failure is in the eyes of the viewer. Entrepreneurs can see failure as a deviation from their desired expectations (McGrath 1999; McKenzie and Sud Forthcoming) and/or failing to "make a go for it" (Watson and Everett 1996; Everett and Watson 1998; Carter and Van-Auken 2006), while the sponsors will define it as failure to provide an adequate return for their investment (Zacharakis et al. 1999). Both, sponsors and entrepreneurs can decide that the firm is a failure when its value falls bellow the opportunity cost of staying in business (Watson and Everett 1996; Everett and Watson 1998; Carter and Van-Auken 2006). Business turnaround can also be seen as a failure in the eyes of the entrepreneurs and/or their sponsors if it means shifting their main resources to a more profitable opportunity (Fredland and Morris 1976; Zacharakis et al. 1999).
The authorities are likely to see failure as discontinuities of business or bankruptcy (Richardson et al. 1994; Everett and Watson 1998; Shepherd 2003; Suh 2004; Carter and Wilton 2006a).
Nevertheless, while discontinuation of a business can be seen as failure, the reason of closure should be taken in consideration. Stokes and Blackburn (2002) and De Castro, Alvarez, Blasick and Ortiz (1997) emphasize that closing a business could be called failure only if the closure was from financial issues. In their opinion, firm failure is but one possible classification of the broader category of firm closure, which includes all reasons for discontinuing a business. Closure from any other reason, such as discontinuation from human issues, as death, divorce, disease or just a decision to leave for pension or for any better opportunity that occur should not be seen as failure (De Castro et al. 1997; Stokes and Blackburn 2002; Zarajczyk 2007). Furthermore, a business that was sold or merged with profit for the owner and stockholders should not be considered as business failure (De Castro et al. 1997; Stokes and Blackburn 2002; Zarajczyk 2007).
In a research done by Bates (2005), 37.7% of entrepreneurs that closed their businesses said that their businesses were successful and they have closed because a superior alternative has become available to them. A successful closure, then, may represent the owner’s decision to redeploy the knowledge gained in the entrepreneurial venture in some other context, perhaps in another new venture.
Appendix 1 includes a comprehensive table that summarises business failure definitions as defined by researchers. After defining business failure, another question arises, should the failure of the entrepreneur's business be considered as the failure of the entrepreneurs themselves.

Entrepreneur failure versus business-venture failure

Most of the research on entrepreneurial success and failure are confused between owners that closed their business with ‘unsuccessful’ entrepreneurs and between venture failure and failed entrepreneurs (Stokes and Blackburn 2002; Sarasvathy and Menon 2003).
When asked, "What is an entrepreneurial failure and is it equal to the failure of the entrepreneur?" Dr Ben-Zion Rubinfeld, an Israeli serial entrepreneur, replied:

> "It is a complicate question to answer. The easy and economically way to answer would be that as an entrepreneur, the success of the company is your success and the failure of the company will be the entrepreneur’s failure. However, this is not so simple, since the question is at what stage the company failed. If the company succeeds to go over 5 years, and started to have some sales then, in my opinion, the entrepreneurs should see it as their own success. Some sales mean that there is a demand in the market and that the entrepreneur chose well the technology and the market. Large market penetration does not always become the job of the entrepreneur. The entrepreneur does not necessarily have the knowledge of how to run large companies.
> Therefore, to summarise, I would say that the job of the entrepreneur is to find a need and a solution to the need. Organise the finance that will bring the company to early sales and achieve the early sales. If the entrepreneur does this he should be considered as a successful entrepreneur." (Answered by email on 08 June 2008).

This research agrees with the researchers mentioned above and emphasise on the difference between business failure and entrepreneurial failure when surveying and interviewing habitual entrepreneurs, considering the habitual entrepreneurs as successful entrepreneurs at any time.
When speaking about entrepreneurial failure Sarasvsthy and Menon (2003) differ between one time entrepreneurs and serial entrepreneurs. They state that while a one-time entrepreneurs' failure is equivalent to the failure of their business, the habitual entrepreneurs’ failure should be seen over the years and not for a specific venture. They emphasize that no habitual entrepreneurs have succeeded in all off their ventures, but as long as each failure is taken as a learning step towards a potential success in the next one, it should not be considered as a failure.

Failure at entrepreneurs' types

The entrepreneurial literature mentions six types of entrepreneurs: nascent, novice, one time, serial, portfolio and habitual entrepreneurs. This section will define these types and their connection to entrepreneurial failure.

Nascent Entrepreneurs

The Global Entrepreneurial Monitor has defined nascent entrepreneurs as those individuals, between the ages of 18 and 64 years, who have taken some action towards creating a new business in the past year. In order to qualify in this category, these individuals must also expect to own a share of the business they are starting and the business must not have paid any wages or salaries for more than three months (Bosma and Harding 2006). As these are nascent entrepreneurs, failure is just a risk they take in consideration when deciding to become entrepreneurs. If they will become successful or failed entrepreneurs, only their future actions will decide.

Novice Entrepreneurs

Novice entrepreneurs are those with no prior private business ownership and experience. They are now in their first venture creation (Politis 2005; Westhead et al. 2005a). Westhead et al (2005a 393) define novice entrepreneurs as:

> "individuals with no prior minority or majority business ownership experience either as a business founder, an inheritor or a purchaser of an independent business, but who currently own a minority or majority equity stake in an independent business that is either new, purchased or inherited".

Amaral and Baptista (2006) and Westhead and Wright (1998) see the novice entrepreneurs as taking their first step in their entrepreneurial career, and emphasis that from this point, the entrepreneur can become a habitual entrepreneur or stay a one-time entrepreneur.

This paper accept the definitions of Amaral and Baptista (2006) and Westhead and Wright (1998) for novice entrepreneurs. This is a unique group, as they usually have less experience then the habitual entrepreneurs. Failure in this case will be determined by their future activities and depend on their decision to become on-time entrepreneurs or habitual entrepreneurs.

One-Time Entrepreneurs

One-time entrepreneurs are a sub-group of the novice entrepreneurs. After opening their first venture they can proceed in one of two ways, if it succeed they go on and stay with it for their entire business life, and if it fail, they return to be employees (Sarasvathy and Menon 2003; Amaral and Baptista 2006). This is the only group of entrepreneurs that could be regarded as failed entrepreneurs when their venture fails.

The reason for being a separate group taken from the novice entrepreneurs is that they will never become serial or portfolio entrepreneurs.

Habitual Entrepreneurs

Habitual entrepreneurs are entrepreneurs who have established at least one other business prior to the start-up of the current new independent venture (Westhead and Wright 1998). Habitual entrepreneurs can be divided into two groups: serial entrepreneurs and portfolio entrepreneurs. The failure and success of this group is considered always in retrospect, at the end of their entire entrepreneurial career. In this research, this group will be addressed as successful entrepreneurs, accepting the definition of Timmons and Spinelli (2007) that there are no failed entrepreneurs just failed ventures.

Serial Entrepreneurs

Sarasvathy and Menon (2002) defined serial entrepreneurs as entrepreneurs that started several ventures, both before and after successes and failures. Florin (2005) defined them as founders that had previously participated in the start-up of new businesses. Westhead et al (2005a 394) gave the widest definition: "individuals who have sold/closed a business in which they had a minority or majority ownership stake, and they currently have a minority or majority ownership stake in a single independent business that is either new, purchased or inherited"

This paper addresses serial entrepreneurs as entrepreneurs that are currently involved in one new venture and in their past they were involved and exited one or more new ventures.

Portfolio Entrepreneurs

Westhead et al (2005b) define portfolio entrepreneurs as individuals who currently have minority or majority ownership stakes in two or more independent businesses that are either new, purchased and/or inherited, once again not differing between managers and entrepreneurs. Others define portfolio entrepreneurs as experienced entrepreneurs who own businesses simultaneously (Carland et al. 2002; Ucbasaran et al. 2008) and differ them from the serial entrepreneurs by the number of ventures they own at the same time.

This paper uses the last definition of portfolio entrepreneurs, that is: serial entrepreneurs that own more than one entrepreneurship simultaneously.

Regardless the type of the entrepreneur, when opening a new venture, there is a risk for failure. This paper is seeking for a way to prevent failure. The first step for preventing failure is to understand and to define failure causes.

Causes of business-venture failure

The causes for failure of small businesses are divided between internal and external causes. In other words, it could be divided into five categories: Managerial, HR, Finance, Marketing and Governance, most of the categories include in them internal and external causes. This section expands and explains each failure category. As these reasons are common reasons, and can occur at any company, the article then specifies the failure reasons of new innovative ventures that their products and/or services contains newness and novelty. For comprehensive tables that summarise the failure reasons as found in the different articles, see Appendix 2.

Managerial reasons for failure: In a simple count of failure reasons described by different researchers, the most common reasons are:

1. Missing managerial skills and quality (Gaskill et al. 1993; Everett and Watson 1998; Zacharakis et al. 1999; Stovall 2005; Ooghe and Projcker 2008) – many entrepreneurs are vary good in finding opportunities and starting the business, but as the business grows and more managing skills are needed, this become a real issue that can fail the business.
2. Poor management strategy (Gaskill et al. 1993; Zacharakis et al. 1999; Connell et al. 2001; Suh 2004; Zarajczyk 2007) – poor strategy will influence the whole company, as the managers will not stay focused on the success root and will easily be shifted with new ideas and daily tasks.
3. Problems in and with the management teams (Connell et al. 2001; Carter and Van-Auken 2006; Timmons and Spinelli 2007; McKenzie and Sud Forthcoming) – Management team and the partners must work in one direction towards the success of the company. That does not mean that the management team should be "yes person" of the founder / manager and say yes to everything the manager wants, but on the other hand, time must not be wasted on arguments that will prevent the company's progress.

Managerial and planning functions are comprehensive and include almost every aspect of the business; without them, no business old or new can succeed. This seems to be the most logical reason for failure. When asking business people about the failure reason, most of them will point this out as the most important failure reason.

Human resources: These can be regarded as managerial problems, but are related specific with human resource and managing them:

1. Choosing wrong partners (Seshadri 2007; Zarajczyk 2007; McKenzie and Sud Forthcoming) – a problem that can cause a major failure. If the partners could not work together, there is no chance for the business to succeed or if one of the partners, although suitable for the job, is not free from early commitments or is not at the business when mostly needed, the chances of business success will drop.
2. Recruiting incompetent people such as family and friends or "yes men" people that will approve any step of the founder instead of helping out can drag the business towards failure (Zacharakis et al. 1999; Suh 2004; Cressy 2006).

The management team and the workers chosen for a new business are essential for its survival. Family members and friends, if not suitable to the job, can make more damage than help the business.

Finance: Researchers highlighted three failure reasons that are connected to finance:

1. Financial issues and excessive debt (Gaskill et al. 1993; Suh 2004; Zarajczyk 2007) – Without cash, no business can run, but having taking too many loans and making the bank or any other financial institute a creditor without the ability to pay the debts will bring the business towards bankruptcy.
2. Less access to capital (Everett and Watson 1998; Stovall 2005; Carter and Van-Auken 2006) – having the correct amount at the correct time is essential, so a business has to be in debt. If the founders do not have access to capital, they will not have the ability to run their business.
3. Inappropriate use of financing (Gaskill et al. 1993; Carter and Wilton 2006b; Zarajczyk 2007) – after receiving the money, they must use it properly and wisely, so it will last long enough for the company to succeed, or at least until the next funding round.

The reasons mentioned above are all internal finance reasons. However, finance failure reasons do not stop inside the business. High interest rates (Carter and Van-Auken 2006) and change in local economy (Suh 2004; Zarajczyk 2007) can be failure causes that the entrepreneur did not anticipate, but yet cannot be ignored as they can become killers to the business.

Marketing: The three most frequent marketing failure reasons that appeared in the research are:

1. Poor External Market Conditions (Everett and Watson 1998; Zacharakis et al. 1999; McKenzie and Sud Forthcoming)
2. Unfocused Market Needs (Suh 2004; Stovall 2005; Mullins 2006)
3. Poor Supplier/Vendor Relations (Gaskill et al. 1993; Zacharakis et al. 1999; Mullins 2006) – Poor supplier vendor relations are essential mainly when the company starts manufacturing. As this stage comes before the sales begin, it is most important to have patient suppliers that can give better credit and get the company into more debt.

Once more, this subject contains internal and external failure reasons. The market is external to the business, and is very difficult to be changed or influenced. Yet for a business to succeed it must have customers that will buy its products or services. The entrepreneur must know how to manage the marketing, find the correct niche and understand the market needs, as they are not always equivalent to what it seems to the entrepreneur.

Governance: For small business, government regulation and availability of government funds are crucial (Suh 2004; Carter and Wilton 2006b; Zarajczyk 2007). This is an external threat for business. If a government is not "entrepreneurial friendly", and will not help new businesses, it will be more difficult for the businesses to succeed. The help could come from government funds that will allow entrepreneurs to take loans in lower interest rates or other better conditions for funds and payments.

New Venture failure

All the failure causes mentioned above, can occur in every business regardless its size, age and industry. However, when founding a new venture that not only is new, but is innovative and it's product / service is new to the world, the failure rates grows (Timmons and Spinelli 2007) and more failure reasons appear. Furthermore, Amason, ,Shrader and Tompson (2006) emphasise that being new themselves, all new ventures present some manner of innovation, and with that have higher probability to fail.

The main failure causes for new ventures are:

1. Missing entrepreneurial characters – Thompson (2004), Suh (2004) and Stovall (2005) argue that, when added to other failure reasons, missing entrepreneurial characters contributes to the failure rates. They state that entrepreneurs with entrepreneurial characters are more likely to overcome problems, and succeed in their new venture.
2. Opportunity evaluation – Timmons and Spinelli (2007) highlight that before entrepreneurs start their venture, they should check if their idea is a real opportunity. A good opportunity evaluation can help the entrepreneur avoid starting a bad venture. It will not guarantee a success but the new venture will start from a better point. The opportunity evaluation, when done properly, should check most of the risk factors, including; competitive advantage, market needs, partners and management team, competition, finance and strategic differentiation, as these are the main failure reasons of every company.
3. Over confident – Douglas (2006) emphasis that entrepreneurs can be too self-confident. They may see the most important thing as being first at the market and not 'spend money and time' on research and checks that will assure them what they already know, if the results are in their favourite or in the worst case, as they see it, tell them that they should not start this venture. An over confidence and optimism of entrepreneurs is a failure reason that rises by more researchers (Cooper et al. 1988; Lee and Lee 2005; Douglas 2006; Hayward 2006). They emphasize that self-confidence is important but over confidence can become a failure trigger. From one hand, without self-confidence, entrepreneurs will be more concerned when deciding to start a new venture, as they will see only the risks and the failure rate, and not the chances and the opportunities. On the other hand, over confidence can make them under estimate the difficulties associated with their business, thus failing to make the necessary preparations. They may further find it difficult to recognize problem areas, to make major changes or to appraise objectively whether to continue to make commitments. Cooper et al (1988) found that while the entrepreneurs find their own odds for success very high (81% said their odds are 7 out of 10 or higher), the odds for success they gave other businesses in the their field were much lower (only 39% gave 7 out of 10 or higher). More than two thirds (68%) of the entrepreneurs said that they are more likely to succeed then other businesses in their fields. Furthermore, they emphasize that entrepreneurs who have already made the commitment to become business owners display a remarkable degree of optimism, and the perceptions of their own chances for success do not seem to be systematically related to factors that might be associated with success and failure. Another side of over confidence is unrealistic revenue projection (Cooper et al. 1988; Buckley and Close 2002; Douglas 2006; Hayward 2006), the entrepreneurs are sure that the market is waiting for their novelty product, and in the minute

they will get there they will sell it with no difficulties and will have a high turnover in a very short time.

4. Product newness – For new and novelty venture, a new internal failure cause category rise; this is the product category. As the product is new, and the company has no known reputation, the fight for survival grows (Buckley and Close 2002; Amason et al. 2006; Zarajczyk 2007). Not only that the entrepreneurs are trying to enter with a new product, but being new themselves, they need to invest more time, effort and funds on promoting and convincing the potential customers that they will succeed and will be able to give maintenance to the product in the coming years. Furthermore, some of these novelty products may need the customer to change their known behaviour; this, again, makes it problematic in convincing the customers that although the company and the entrepreneurs may not have any reputation, they can be trusted and the potential customer should buy the product (Amason et al. 2006).
5. Novelty – While small new businesses, which operate in a known field with known technology and known market strategies can copy or learn from their competitors, the new venture with a novelty product needs to establish and create everything from scratch (Amason et al. 2006). After succeeding with convincing the customer that the new venture and company can be trusted, the entrepreneur must take in consideration the time of entrance into the market.
6. Timing – is essential for novelty products (Zacharakis et al. 1999; Buckley and Close 2002). It is true that being first in the market is not a guarantee for success; however, missing the correct time for entering the market could cause failure. Wrong timing can come in both directions too early or too late. When entering too early, the market may not be ready for the technology, e.g. using a product based on cellular technology (as in opening electronic gates with a cellular phone) before most of the population in the country had a mobile phone. On the other hand, coming too late can cause a financial loss, as the entrepreneur might miss the big money of selling to the early adopters (Kotler and Keller 2008) and enjoy few months with less direct competition.
7. Product design – When trying to enter first to the market, entrepreneurs may put less emphasize on the product design (Zacharakis et al. 1999; Buckley and Close 2002; McKenzie and Sud Forthcoming), and get out to the market with a poor and malfunctioning design. They may think this is a Beta version of the product and will improve it at the next version, but meanwhile they ruin their chances to build a good reputation.
8. Rapid growth – While the product is good and the customers are satisfied, rapid growth can become out of control, the new venture can receive a large order, but will not be able to produce it, as it does not have the facilities and/or the money at that time for massive production. This can ruin the reputation of the company and can bring it all the way up to closure Zarajczyk (2007).

Research questions

The main question for this research is **how can one avoid or overcome the more common failure causes and by that lower the new venture failure ratio**.

Before answering the main question, some more questions must be answered:

1. What are the main causes for business and new venture failure?
2. At what stage of the new venture do most of the failures occur?
3. How can nascent and novice entrepreneurs learn from the failure experience of serial entrepreneurs?
4. What is the difference, if any, between the failure of the new venture and the failure of the entrepreneurs themselves?
5. Can one predict business failure? And if so, how?

AIM

The stigma associated with new ventures' failure is an important determinant of entrepreneurial activity. It influences not only the decision to become an entrepreneur, but also the choice of projects and the decision to terminate a project (Landier 2005). In different parts of the world the reaction to new ventures' failure is different, while in the US and Israel the failure will be taken as a learning stage towards the next and successful entrepreneurship, in Europe, Australia and Japan entrepreneurs will find it more difficult to fund their next entrepreneurship if they failed in the first one (Landier 2005). Failure is probably the one thing that almost all entrepreneurs will face somewhere in their endeavours. At the same time, failure is probably the last thing on the mind of an entrepreneur starting out on the entrepreneurial process (Pretorius 2008). Nevertheless preparing and understanding the causes that can

bring failure may help avoid it. Although there are researchers that identify failure as good for the economy (Knott and Posen 2005), the emotional and social effect it has on entrepreneurs can be traumatic (Singh et al. 2007) and is another good reason to avoid it.
The aim of this work in progress paper is to retrieve the knowledge and understanding of business failure and the causes that lead ventures to failure. This preliminary research will help building the survey and the interview questions in the data collection to the full. The aim of the executed research is to create a conceptual model that will help novice and nascent entrepreneurs avoid the more common failures while opening their first venture, and by that their chances to succeed. This will benefit not only the entrepreneurs themselves but also the society and all the stakeholders of the venture.

METHODOLOGY

This research is conducted in two stages; the first is a literature review without primary data collection, as shown in this paper and the second stage, however outside the ambit of this paper, is data gathering and analysis of the results. Scientific resources from the ABI-Inform, Ebsco-host, Proquest, Blackwell and other databases were searched for titles published since 1985. The date was somewhat arbitrarily determined (but not necessarily adhered to) and based on convenience, as this was the earliest date for which most databases had downloadable electronic titles, abstracts and full texts readily available. For apparently major works, the date was not a limitation, especially when an article was referenced widely. Age of publication was not considered important, but relevance and contribution to the body of knowledge of failure were paramount. The literature review is providing an insight and understanding on failure causes, how one should see failure and will help building the survey and the interview questions in the data collection stage.
The second stage in the research uses a combination of two triangulation types, multiple data collection techniques and multiple methods in the different stages of the research. The combination of these two strategies will provide triangulation for better strength validation of the thesis results. It will address 100 entrepreneurs, selected by Deloitte Touche Tohmatsu, Australia in their "Technology Fast 50" competition in the last 2 years (50 from each year). Secondary data about these entrepreneurs, gathered by the Deloitte prize committee, is available before the main survey. This data will give first impression on all the companies that joined the competition, and may add more potential participants. A survey will include all the entrepreneurs and from its results, 10 entrepreneurs will be chosen and interviewed. In brief, the research will be conducted in three phases:
Phase 1: Survey between 100 entrepreneurs that will help choose 10 candidates for in-depth interviews. The survey will check the number of ventures each entrepreneur established, how many were successful and how many failed. In addition to that, the entrepreneurs will define their own definition for venture failure and entrepreneurial failure.
Phase 2: In-depth interviews with the 10 selected entrepreneurs. These interviews will retrieve better understanding on the main failure causes of the failed ventures and, in time perspective, find what the entrepreneurs should and / or could have done better to succeed in them. All interviews will be recorded and later transcribed into the Nvivo software for further analysis.
Phase 3: The interviews will be analysed with both, qualitative and quantitative methods. The qualitative methods will help understanding the causes of business failures and how do the entrepreneurs think they could have overcome and / or avoid those failures. The quantitative part will help validate the results by checking frequency of statements in the interviews.

DISCUSSION

There is no single definition for new venture and business failure. Each researcher defines failure from the view of the unit he or she measures. Some researchers investigate the business and they define failure as discontinues or closure of the business (Richardson et al. 1994; Watson and Everett 1996; Everett and Watson 1998; Shepherd 2003; Suh 2004; Carter and Van-Auken 2006; Zarajczyk 2007; Pretorius Forthcoming). Other emphasis on the financial issues and define failure as a closure for preventing any other lose or failing to attract any more debt or equity funds (Watson and Everett 1996; De Castro et al. 1997; Everett and Watson 1998; Zacharakis et al. 1999; Carter and Wilton 2006a; Cressy 2006; Pretorius Forthcoming). As the unit of analysis, in this research, are the entrepreneurs and not their ventures, this paper defines failure as a deviation from the entrepreneurs' desired expectations, which means that the venture did not rise as they thought it should. This definition includes bankruptcy and business closure from unwanted reasons, and seems to be a very wide definition, although hard to determine, as the entrepreneurs themselves are the only ones to decide if it is a failure or a success.
This paper agrees with stokes and Blackburn (2002) and sarasvathy and Menon (2003) that differ between business failure and the failure of the entrepreneur. As long as the entrepreneurs rise from the

venture failure, cope with it, learn from it and start their next venture, they should be addressed as successful entrepreneurs. Timmons and Spinelli (2007) even emphasise that there are no failed entrepreneurs, only failed ventures. Therefore, serial and portfolio entrepreneurs are always addressed as successful entrepreneurs. As the aim of the full research is to learn from the experience of successful entrepreneurs, one-time entrepreneurs will not be addressed.

Failure causes can be seen as managerial problems, as the manager did not select good partners, or did not manage the ventures' finance and so on. However, most researchers divide the causes into 5 main categories: managerial, human resources, marketing, financial and governance. Poor managerial strategies, problems with the management teams, wrong marketing segmentations, wrong partners, bad finance management and so on are all failure causes that can lead any company towards failure, regardless its age and size. More failure causes are added when the new ventures have products or services with novelty and newness. In this case, there is importance for opportunity evaluation and good research, before starting the ventures. However, one of the failure causes is over confidence of the entrepreneurs and as result of that, they will not "spend" money on pre-research as they are sure in advance that they have all the answers (Cooper et al. 1988; Lee and Lee 2005; Douglas 2006; Hayward 2006). Timing is a big cause for new venture failure. Entrepreneurs want to be first in the market, and they are ready to go out with a product that is still in its Beta stage (Zacharakis et al. 1999; Buckley and Close 2002). While it is important to be first in the market, the payment on the lack of readiness of the product can be lethal to the company, harming its reputation and causing it to fail.

The risk in opening a new venture is high and known. The more experience the entrepreneurs have, the better they will handle the risks and the chance to succeed in their ventures are higher (Stokes and Blackburn 2002; Cope et al. 2008). On the other hand, different countries react differently to failed ventures and to the entrepreneurs that founded the failed ventures. While in the US failure is taken as a learning stage every entrepreneur should go through, in Europe, Japan and Australia, the founders of failed ventures find it difficult to start their next venture (Landier 2005). In these countries, entrepreneurs who are bankrupt are not allowed by law to open new companies for several years, while in the US they can start their next venture right away.

Although this research is aiming to prevent failure, there are researchers that identify failure as good for the economy (Knott and Posen 2005), and good emotional and social effect on entrepreneurs (Singh et al. 2007). It seems that Knott and Posen (2005) are looking just with "financial glasses" that is, they define it that if a firm is not profitable, it is better for the economy that it will be closed, regardless the effects it has on the entrepreneurs and on nascent entrepreneurs. The strong entrepreneurs will survive and start a new venture, while the others should not even start their business. This research believes that new ventures are good for the society and the economy, succeeding ventures are even better for the society and economy, and as so, failure should be prevented.

CONCLUSION

Failure is a process, it does not appear one day without any notice, usually the firm will start to decline and if not managed correctly, it will cause a failure (Pretorius Forthcoming). As this is a process, one can stop the failure process towards a turnaround. This research comes from the idea that prevention is better then cure, and therefore, failure should be prevented. This will be for the benefit of all, entrepreneurs, sponsors and the society.

Limitations of the research:

1. The definition of failure in this research is a very wide definition; it is defined as a deviation from the entrepreneurs' desired expectations. As this definition includes the entrepreneurs' expectation, it is a tricky definition. For example, the same venture can be seen by two entrepreneurs-founders as a failure and as a success at the same time. Taking in consideration this limitation, this definition suites this research, as it looks from the entrepreneurs' point of view, and will address the interviewed entrepreneurs (in the second stage) for their opinion on the definition.
2. The research is done only on publications that are in the databases that Swinburne University are subscribed on and written in English. It may miss important research that was not published or published in small journals that the researcher cannot access.
3. This full research addresses experienced and successful entrepreneurs. Timmons and Spinelli (2007) define that there are no failed entrepreneurs, only failed ventures, and as so every serial and / or portfolio entrepreneur fulfil the demand of experience and successful. As the research is about learning from failure, the entrepreneur's experience should include at least one failed venture.

4. Although the full research addresses only technology entrepreneurs, its results can be spread to different industries, as shown in the research of Westhead et al. (2005a) that sampled entrepreneurs from different industrial categories. No significant differences were shown regarding the decision-making between the different industries.

This work in progress research is the first stage of a full research that intends to create a conceptual framework that will help novice and nascent entrepreneurs prevent failure in their new ventures. The plan is to publish an article with the data collection result in the 2010 AGSE conference.

APPENDIXES

Appendix 1: Business failure definitions

Table 1: Business failure definitions

Writer / Failure definitions	Fredland & Morris(1976)	Richardson et al. (1994)	Watson & Evertt (1996)	De Castro et al (1997)	Evertt & Watson (1998)	Zacharakis et al. (1999)	McGrath (1999)	Boden & Nucci (2000)	Shephered (2003)	Suh (2004)	Cannon & Edmondson (2005)	Cressy (2006)	Carter & Van-Auken (2006)	Zarajczyk, (2007)	Pretorius (Forthcoming)	McKenzie (Forthcoming)
Bankruptcy			x		x				x				x	x	x	
Discontinuance of business		x	x							x			x	x		
a deviation from the entrepreneurs' desired expectations							x	x			x					x
Business liquidation to prevent further losses			x	x	x								x			
Discontinuance of ownership			x		x									x	x	
The firm's value falls below the opportunity cost of staying in business	x			x					x			x				
Failing to "make a go for it"			x		x								x			
Business turnover	x					x										
entrepreneurships that fail to provide an adequate return for the VCs						x										
The business fails to attract new debt or equity funds															x	

Appendix 2: Business failure causes

Table 2: Human Resource causes

Writer / Failure reasons	Zacharakis et al. (1999)	Suh (2004)	Cressy (2006)	Seshadri (2007)	Zarajczyk (2007)	McKenzie and Sud (Forthcoming)
Partners				x	x	x
Key People Incompetent	x	x	x			
Human issues (as death, divorce, disease)					x	

Table 3: Managerial Causes

Writer / Failure reasons	Gaskill, et al. (1993)	Everett and Watson (1998)	Zacharakis et al. (1999)	Connell et al. (2001)	Buckly & Close (2002)	Suh (2004)	Stovall (2005)	Carter and Van-Auken (2006)	Carter and Wilton (2006)	Seshadri (2007)	Timmons and Spinelli (2007)	Zarajczyk (2007)	McKenzie and Sud (Forthcoming)
Poor Management Strategy	x		x	x	x	x						x	
Inappropriate management qualities and skills	x	x	x				x						
Management team				x				x			x		x
Lack or poor business plan					x							x	
Control over costs, prices, distribution	x								x				
Key managers and employees take roles beyond their formal job descriptions										x			
Leadership				x									

Table 2: Financial causes

Writer / Failure reasons	Gaskill et al. (1993)	Everett and Watson (1998)	Zacharakis, et al. (1999)	Suh (2004)	Stovall (2005)	Carter and Van-Auken (2006)	Carter and Wilton (2006a)	Zarajczyk (2007)
Financial issues and excessive debt			x	x				x
Less access to capital		x			x	x		
Inappropriate use of financing	x						x	x
Changes in local economy				x				x
High Interest rates		x						

Table 5: External - Governance causes

Writer / Failure reasons	Gaskill et al. (1993)	Everett and Watson (1998)	Connell et al. (2001)	Buckly and Close (2002)	Suh (2004)	Carter and Wilton (2006a)	Cressy (2006)	Timmons and Spinelli (2007)	Zarajczyk (2007)
External – environment	x	x	x	x			x		
Government regulation and availability of government funds					x	x			x
Legal issues								x	

Table 6: marketing causes

Failure reasons \ Writer	Gaskill et al. (1993)	Everett and Watson (1998)	Zacharakis et al. (1999)	Buckly & Close (2002)	Suh (2004)	Stovall (2005)	Carter and Van-Auken (2006)	Mullins (2006)	Seshadri (2007)	Timmons and Spinelli (2007)	Zarajczyk (2007)	McKenzie and Sud (Forthcoming)
Unfocused Market need				x	x	x		x				
Poor external Market Conditions		x	x									x
Market Size				x						x		x
Poor Supplier/Vendor Relations	x		x					x				
Unknown customers				x				x				
Substitutes, alternatives, indirect competition				x	x							
Un experience	x			x								
limited or deteriorating markets							x					
Inability or unwillingness to access regional, national or global markets											x	
Growth rate of the market										x		
Barriers to entry										x		

Table 3: failure causes in new venture

Table 7.1: Managerial causes

Failure reasons \ Writer	Cooper et al.(1988)	Buckly and Close (2002)	Mitchell et al. (2004)	Suh (2004)	Thompson (2004)	Lee and Lee (2005)	Stovall (2005)	Amason et al. (2006)	Douglas (2006)	Hayward et al. (2006)	Zarajczyk (2007)
Unrealistic revenue projection / under estimating difficulties	x	x							x	x	
Risk taking / Over confidence / Over optimistic	x					x			x	x	
Liability of newness		x						x			x
Inexperience			x						x	x	
Missing entrepreneurial characters				x	x		x				
Need for achievement		x				x					
unable to set and achieve milestones		x						x			
Founder "knows every thing"									x	x	
Novelty								x			

Table 7.2: Product causes

Failure reasons \ Writer	Zacharakis et al. (1999)	Buckly and Close (2002)	Suh (2004)	Lee and Lee (2005)	McKenzie and Sud (Forthcoming)
Poor Product Design	x	x			x
Lack of Technical Capabilities	x		x	x	
Failed Implementation	x				x
Lack of technology differentiation strategy		x		x	
Product timing	x	x			

Table 7.3: Opportunity evaluation causes

Failure reasons \ Writer	Buckly and Close (2002)	Douglas (2006)	Hayward et al. (2006)	Timmons and Spinelli (2007)
real idea Vs. real opportunity	x			x
"Pre research is a waste of time"		x	x	

Table 7.4: Growth causes

Failure reasons \ Writer	Gaskill et al. (1993)	Cressy (2006)	Timmons and Spinelli	Zarajczyk (2007)
Rapid growth that is out of control	x			x
Age of company		x		

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