THE PARADOXICAL NATURE OF VENTURE FAILURE

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ABSTRACT

New Venture Failure (NVF) is a well researched field, placing emphasis on the importance of learning and recovering from. However, studies about what it is that one can learn from NVF are scant. This exploratory, qualitative study explores how 27 experienced Australian entrepreneurs and intrapreneurs perceive new venture failure, and what they have learned from it. The research used practice-based theories to convert the participants’ experiences into academic theories. The data was analysed using cognitive maps for categorising and sorting the data, and classic content and word count techniques for the analyses. We conclude with a conceptual list of advice to help novice and nascent entrepreneurs and intrapreneurs succeed in their first venture/s, as suggested by the participants. A significant addition to the body of knowledge in this domain is depicted. Since this study is a first of its kind to integrate entrepreneurial learning and new venture failure, the following finding is highlighted: Venture failure is not perceived in a negative context by entrepreneurs, as long as they learn from the experience/s. As such, it is identified that ventures fail, not entrepreneurs! This finding would, however, provide a base for further empirical research into the psychological aspects of entrepreneurs’ perceptions to new venture failure.
INTRODUCTION

This study explores the relationship between two fields: new venture failure and entrepreneurial learning.

The nature of the “failure paradox” is composed from three parts:

1. Lack of a common definition for business and new venture failure - Watson and Everett (1993) summarised the definition of business failure into four main definitions: business closure for any reason, business disposed to prevent further losses, bankruptcy and failing to “make a go of it”. This research approach to venture failure is based on the entrepreneurs’ decision only, regardless of the objective state of the venture. Therefore, the definition of new venture failure is a nuance of “make a go of it” that is, described as “the entrepreneurs’ dissatisfaction of the venture’s progression”.

2. Cultural base attitude toward business and new venture failure - The attitude towards failure is culturally based (Cave, Eccles, & Rundle, 2001). In the US, the attitude towards failure is mainly positive, whilst in other countries, such as the UK and Japan, it is negative.

3. Confusion between entrepreneurs who closed their business and ‘unsuccessful’ entrepreneurs - or in other words, between venture failure and failed entrepreneurs (Sarasvathy & Menon, 2003; Stokes & Blackburn, 2002).

In this research, entrepreneur is defined as “an individual who applies innovative solutions to opportunities in new or existing organisations”, emphasising that entrepreneurs are found in established businesses as in new ventures. This definition is based on McKenzie and Sud (2008: 127), who stressed that entrepreneurs are individuals who can “see what is not there”.

The second field this study explores is entrepreneurial learning, including learning by entrepreneurs and organisations. The research accepts that learning is a combination of cognitive and behavioural learning approaches (Corbett, 2005), stating that learning is a creation of knowledge that leads to a behavioural change.
It is suggested that entrepreneurs prefer to learn from experience rather than from theories (Rae, 2004b). This type of learning is described as action learning. Action learning concepts were originally developed as a method for combining theory and practice in the entrepreneurial learning style (Harrison & Leitch, 2005). Entrepreneurs learn from every action they perform, gaining experience from both successful and failed procedures, however they will learn more from critical events (Deakins & Freel, 1998). Furthermore, Sitkin (1992) suggest that entrepreneurs’ and organisations’ learning from successful procedures may result in a repetition of the same procedures that may be performed better, but they do not add to learning as they do not produce cognitive thinking on the procedures and as a result the influence is only on the short term performance. Therefore, the outcomes of failure should be a cognitive reflection on the organisational/entrepreneurial behaviour and performance, using the failure as a learning stage for better performance in the future (Sitkin, 1992).

The aim is to find how entrepreneurs and intrapreneurs define new venture failure and what they learn from it.

Most of the academic literature enforces the importance of learning from new venture failure, however the research on what is it that can be learned from it is scant. Therefore, this study adds to the growing body of entrepreneurial research by combining entrepreneurial learning and new venture failures, Figure 1 demonstrate the research place in the knowledge base.

The article will commence in classifying entrepreneurship typology and new venture failure emphasising on its paradoxical nature. Research questions and proposition are then stated. The article will continue with methodology, findings and discussion and will conclude with conclusions, limitations and suggestions for future research.
LITERATURE REVIEW

Entrepreneurship Typology

We acknowledge Bolton and Thompson’s (2004) definition that entrepreneurship is not only about generating revenue or the creation of new organisations. However, we notice the significance of adding the opportunity recognition to the definition, as suggested by Drucker (1993), McKenzie & Sud (2008) and Wooldridge (2009), emphasising that entrepreneurs are individuals and not a group of people. An organisation may employ more than one entrepreneur, but each entrepreneur is an individual, that may start a new venture or exploit a new opportunity. Furthermore, we recognize Sharma and Chrisman (2007) addition of corporate entrepreneurs (intrapreneurs) to the general definition of entrepreneurs. Therefore, we define entrepreneur as “an individual who applies innovative solutions to opportunities in new or existing organisations”.

Entrepreneurship is frequently related to the start-up of new organizations, though entrepreneurship can happen in any organisation regardless of its size, maturity or type (Morris, Kuratko, & Covin, 2008). This type of entrepreneurship is called intrapreneurship, corporate entrepreneurship or corporate venturing, and is mostly defined as entrepreneurship within an existing corporate structure (Bager, Ottosson, & Schott, 2010; Burns, 2008; Fitzsimmons, Douglas, Antoncic, & Hisrich, 2005; Menzel, Aaltio, & Ulijn, 2007; Shepherd & Katz, 2004) (or entrepreneurial behaviour in an established, larger organisation (Burns, 2008; Morris et al., 2008). The level of entrepreneurship varies between the different organisations, with 3-M and Microsoft on the high side of the continuum and big bureaucratic firms on the low end (Morris et al., 2008).

Entrepreneurs and intrapreneurs are similar in many respects but, at the same time, their working in different environments means that an emphasis must be placed on the differences between them as well. As do intrapreneurs and entrepreneurs, intrapreneurship and entrepreneurship have both similarities and differences (Hisrich, 1990; Morris et al., 2008). Table 1 summarise the similarities and differences between intrapreneurs and entrepreneurs.
Regardless of the entrepreneur’s definition, entrepreneurship literature mentions six types of entrepreneurs: nascent, novice, one time, serial, portfolio and habitual entrepreneurs. This section will define each entrepreneur type as found in the relevant literature and show the connection between the entrepreneur’s type and organisation / entrepreneurial failure.

1. Nascent Entrepreneurs – Nascent entrepreneurs are individuals who have made their first steps towards starting their first new venture (Bosma & Harding, 2006; Gulst & Maritz, 2009). The venture may be a new business (start-up) or embedded in a mature business. These nascent entrepreneurs may become managers of a start-up, or lead the new venture in the business that employs them. For these people, as they are not yet entrepreneurs, failure is just a risk they take into consideration when deciding to become entrepreneurs. Whether they will become successful or failed entrepreneurs in the future, only their actions will tell.

2. Novice Entrepreneurs – Novice entrepreneurs are entrepreneurs that started their first venture (Amaral & Baptista, 2006; Gulst & Maritz, 2009), regardless if it is a new business or a new venture. They are less experienced and will either stay one-time entrepreneurs or become habitual entrepreneurs. Failure in this case will be determined by their future activities and depend on their reaction if their first venture will fail.

3. One-Time Entrepreneurs – One-time entrepreneurs are entrepreneurs that started their first venture, and did not start other ventures (Gulst & Maritz, 2009; Sarasvathy & Menon, 2003). The entrepreneur of this type will continue to develop and grow this venture if it succeeds or return to employment if it failed. This is the only group of entrepreneurs that this research regards as failure, as they ceased their entrepreneurial activities, and by doing so conform to Saravasthy and Menon’s (2003) definition.

4. Habitual Entrepreneurs – Habitual entrepreneurs are entrepreneurs that start new ventures consistently (Gulst & Maritz, 2009; Westhead & Wright, 1998), one at a time or simultaneously. The important concept here is that, regardless of the result of their venture (failure or success), they will start a new one. The failures and successes of this group are always considered in retrospect, at the end of their entire
entrepreneurial careers. In this research, this group will be addressed as successful entrepreneurs, accepting the claims of Sarasvathy and Menon (2003) and Timmons and Spinelli (2009) that there are no failed habitual entrepreneurs, just failed ventures

a. Serial Entrepreneurs – Serial entrepreneurs are habitual entrepreneurs who create new ventures, one at a time (Gulst & Maritz, 2009). The ventures can be a new business (Bosma & Harding, 2006; Florin, 2005) or embedded in a mature business (Morris et al., 2008; Sharma & Chrisman, 2007). This research adds the intrapreneurs to the category of serial entrepreneurs. Although they do not open new businesses, or may even not run the business in which they are employed, they habitually create new ventures in their business (or in the business in which they work). Disregarding these entrepreneurs would suggest that entrepreneurs like Bill Gates are one-time entrepreneurs and not serial entrepreneurs, as suggested above. As mentioned earlier, as the serial entrepreneurs are a sub-group of the habitual entrepreneurs, they will always be considered as successful entrepreneurs.

b. Portfolio Entrepreneurs – Portfolio entrepreneurs are habitual entrepreneurs who create, manage and/or lead new ventures, simultaneously (Gulst & Maritz, 2009; Ucbasaran, Westhead, & Wright, 2008). They are involved in multiple new businesses and/or multiple new ventures embedded in mature business at the same time. The primary characteristic of this type of entrepreneur is that they divide their attention between a number of ventures instead of focusing on one. As with the serial entrepreneurs, these entrepreneurs are treated as successful, regardless of the success or failure of a specific venture

New Venture and Business Failure

The attitude towards failure is culturally based. While the attitude in the USA towards failure is mainly positive, the attitude towards failure in other countries, such as the UK and Japan is negative. This is the nature of the “failure paradox” (Cope, Cave, & Eccles, 2008; Landier, 2005; Lee & Peterson, 2000).
However, before trying to understand this paradox, one should understand the phenomenon of business and new venture failure. The academic literature does not agree on a common definition for business failure (Watson & Everett, 1993). Researchers define failure as it fits their research question and the failure ratio they wish to indicate. Therefore, Pretorius (2009) suggests that there is a lack of comparability in research outcomes.

Watson and Everett (1993) summarised four main definitions for business failure; discontinuance for any reason, disposed to prevent further losses, bankruptcy and falling short of goals. They argued that the failure rates changes according to the failure definition between the two extremes – discontinues for any reason (highest failure rate) and bankruptcy (lowest failure rate), where disposal to prevent further losses is between them. However, falling short of goals is outside of this continuum, as it is defined by the entrepreneurs themselves and not by the authorities or any other outside observer.

Hence, this research approach to venture failure is based on the entrepreneurs’ decision only, regardless of the objective state of the venture / business. Therefore, the definition of new venture failure is a nuance of “falling short of goals” and is described as “the entrepreneurs’ dissatisfaction of the venture’s progression” (Gulst & Maritz, 2010).

We differentiate between a new venture and an organisation. A new venture is any creation of a new product or service while an organisation is a legal entity. The new venture can be the whole organisation (as in a start-up) or embedded in a mature organisation.

This is the most appropriate failure definition for this research as the unit of measure in the research are the entrepreneurs and intrapreneurs rather than their businesses. Furthermore, this definition is appropriate to business failure as well as new venture failure.
The Paradoxical Nature of New Venture Failure

The attitude towards failure is ambivalent. The first intuitive feeling about business failure is that it is something to avoid. Utterance as the next citation is a common attitude towards business failure:

“In our culture, failure is anathema. We rarely hear about it, we never dwell on it and most of us do our best never to admit to it. Especially in organizations, failure is often simply not tolerated and people avoid being associated with failure of any kind” (Berg & Mirvis, 1977).

On the other hand, failure is thought to be a good teacher, as is understood from the next citations:

“The process of learning from business failure also benefits society, through the application of that knowledge to subsequent businesses.” (Shepherd, 2003: 318)

Therefore, entrepreneurs will not want their names connected to a failed venture, as there is a tendency to confuse between failed ventures and failed entrepreneurs (Politis & Gabrielsson, 2009; Sarasvathy & Menon, 2003; Stokes & Blackburn, 2002). Some of the researchers see it from a positive point of view as long as it is used as a learning stage for better future performance (Connell et al., 2001; Knott & Posen, 2005; Sitkin, 1992). Others argue that although the failure is a learning stage, organisations and entrepreneurs may find it a difficult way to learn (Cannon & Edmondson, 2005), and therefore may discard it.

Furthermore, as mentioned earlier, the attitude toward business failure has a geographical perspective. While in the US, failure is taken as part of the entrepreneurs’ learning curve, in Europe and Japan, failure is seen as a negative outcome, and entrepreneurs will find it difficult to fund their next venture if they failed in the first one (Cope et al., 2008; Landier, 2005; Lee & Peterson, 2000).

Cave, Eccles and Rundle (2001) researched the different attitudes between entrepreneurs that experienced failed ventures in the UK and in the USA. They found that in the UK,
entrepreneurs admitted that the fear of failure had hindered their growth rate and they took fewer risks, as it was difficult to remove the failed entrepreneurs’ stigma that was associated with the venture’s failure. Once more, the entrepreneurs felt that their venture failure was attached to them personally. While in the US the entrepreneurs saw the failure as a learning process that helps them to become more resilient. The main difference between entrepreneurs from both countries lays in the culture of the countries (Lee & Peterson, 2000). Furthermore, as the attitude towards the failure is negative, entrepreneurs will spend resources on avoiding failure instead of learning from the failure (McGrath, 1999).

New Venture Failure as Opposed to Entrepreneur’s Failure

“Failure doesn’t mean you are a failure it just means you haven’t succeeded yet” (Schuller, 2006)

The third part of the paradoxical nature of new venture failure is the confusion between entrepreneurs that closed their business versus “unsuccessful” entrepreneurs. In other words, between venture failure and failed entrepreneurs (Sarasvathy & Menon, 2003; Stokes & Blackburn, 2002). When a venture fails, in any definition of failure, the entrepreneurs must decide on their future: are they coping with the venture failure, learning from it and starting their next venture (McGrath, 1999; Shepherd, 2003; Singh, Corner, & Pavlovich, 2007) or do they exit entrepreneurial activities and return to employment. Sarasvathy and Menon (2003) argue that the entrepreneurs that go back to employment are the only entrepreneurs that are considered as failed entrepreneurs. Furthermore Bolton and Thompson (2004) definition of entrepreneurs does not consider these people as entrepreneurs at all. Sarasvathy and Menon (2003) argue that habitual entrepreneurs should never be considered as failed entrepreneurs, as they learn from their mistakes, and start a new and hopefully more successful venture.

The attitude of a country towards business failure can be seen through its bankruptcy laws (Cave et al., 2001). In Australia, bankruptcy is a stage that last between 3 to 8 years (AussieLegal, 2009). During this time the entrepreneurs are not allowed to open any other business, however entrepreneurs may pay their debts from money they receive from
relatives, and by that shorten the insolvent period. Furthermore, after the bankruptcy period is over, the name of the entrepreneur stays in the National Personal Insolvency Index (NPII) database. A different approach is the American approach towards bankruptcy. After declaring bankruptcy, the entrepreneurs may open their next venture and with the money they earn in it, pay their debts for the bankrupt venture (Legal-Information-Institute, 2009). The differences between these two laws suggest a political and cultural attitude towards business failure.

This research accepts Sarasvathy and Menon’s (2003) attitude, and refers to all habitual entrepreneurs, regardless the country they create in, as successful entrepreneurs, that may have in their history failed ventures, but coped with them and opened new ventures. Furthermore, as these entrepreneurs experienced failed venture, their experience may benefit nascent and novice entrepreneurs.

**Entrepreneurial Learning**

Skinner (1953) defined learning as a change of behaviour, emphasising that improvement in performance may be regarded as training and not regarded as learning. This definition was broadened by Huber (1991: 89), emphasising that learning is seen when there is a potential for behavioural change: “an entity learns if, through its processing of information, the range of its potential behaviours is changed”. Therefore, it is the process the entrepreneurs go through and not its outcome that is important.

A very different approach of defining learning comes from the cognitive and experiential learning theories where learning is defined as knowledge creation (Gibb, 1997; Harrison & Leitch, 2005; Kolb, 1984). This definition is based on the works of John Dewey, Kurt Lewin and Jean Piaget from the beginning of the 20th century (Kolb, 1984).

Entrepreneurial learning can be understood in two ways, learning to behave as an entrepreneur, entrepreneurs’ learning during their entrepreneurial career or a combination of both (Rae & Carswell, 2001). However, as we are exploring what entrepreneurs and intrapreneurs learned from their failed ventures, we focus on entrepreneurs and intrapreneurs’ learning during their career.
Cope (2005: 374) describes entrepreneurs’ learning as “learning experienced by entrepreneurs during the creation and development of a small enterprise, rather than a particular style or form of learning that could be described as ‘entrepreneurial’ ”. While accepting this definition, this research argues that experience can come from any venture creation, and not only ventures that create new enterprises.

Most researchers agree that entrepreneurs’ learning is a process of changing experience into knowledge, or just gaining knowledge, as depicted in Table 1. We accept the general definition that entrepreneurs’ learning is a process of changing experience into knowledge.

Entrepreneurs prefer practice to theory, a phenomenon that influences their learning styles (Rae, 2004a). Learning is achieved while creating and managing new ventures rather than in formal classes. It does not follow a planned structure, being done in real-time through the experiences acquired and reactions to changes, incidents and problems that are encountered (Deakins & Freel, 1998; Rae, 2004a, 2005). It is suggested that entrepreneurs learn by exploiting and exploring their experience and knowledge. They may exploit their experience by replicating more or less successful actions or exploring new actions when their action failed or when they do not have former experience in the subject (Minniti & Bygrave, 2001; Politis & Gabrielsson, 2009).

In addition to learning from their own experience, entrepreneurs learn by observing others’ actions, retaining the information, assimilating it in their memory and relating it to their own situations. This type of knowledge can act as a template for evaluating their own actions (Holcomb, Ireland, Holmes Jr, & Hitt, 2009). Therefore, entrepreneurs’ learning is defined as the creation of knowledge that leads to behavioural change.

Learning from Failure

“Firms go out of existence, but entrepreneurs survive and learn” (Timmons & Spinelli, 2009: 107)

As stated previously, venture failure can occur in new ventures embedded in a mature organisation (intrapreneurship) or in stand-alone new ventures (entrepreneurship). This section will broaden the area of learning from intrapreneurial and/or entrepreneurial new
ventures’ failure. For reading clarity, this section will address entrepreneurship and intrapreneurship as entrepreneurship or new ventures. Likewise, this section will address intrapreneurs and entrepreneurs as entrepreneurs.

Venture failure is probably the one thing that almost all entrepreneurs 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).

Venture failure can be addressed in negatively or positively. While the negative outcomes of failure are monetary and emotional cost, the positive effects are associated with learning, gaining experience and other cognitive constructs (Mitchell, Mitchel, & Smith, 2004). Furthermore, many researchers emphasise that failure represents an essential requirement for learning. Therefore, failure is an experience entrepreneurs gained as part of their learning curve (Cave et al., 2001; Cope et al., 2008; Shepherd, 2003; Sitkin, 1992; Stokes & Blackburn, 2002).

Shepherd (2003) emphasise that learning from venture failure occurs when entrepreneurs are able to use the experience and the information, gathered in the failed venture, for revising their knowledge and beliefs. Therefore, entrepreneurs must reflect on their actions, understand what went wrong and use the new knowledge in their next venture (Shepherd, 2003). However, McKenzie and Sud (2008) demonstrate that although it is important to learn from failure, there are cases in which nothing is to be learned from the failure. They give an example of failure caused by exogenous forces. However, the belief expressed in this study is that even from such failure entrepreneurs can learn, if they reflect on their actions, to avoid those forces in their next venture (for example, choose a different environment in which to start that venture).

Although entrepreneurs learn from every action they perform, gaining experience from both successful and failed procedures, they will learn more from critical events (Deakins & Freel, 1998). Therefore, the outcome of failure should be a cognitive reflection on the organisational (or the entrepreneurial) behaviour and performance, using the failure as a learning stage for better performance in the future. Successful procedures may result in the repetition of the same procedures that may be performed more effectively, but they do
not enhance learning as they do not produce cognitive thinking on the procedures and, as a result, the influence is only on short term performance (Politis & Gabrielsson, 2009; Sitkin, 1992). Moreover, repeating successful routines may have an opposite outcome, as entrepreneurs become over-confident in their actions and repeat the same routine even if the situation has changed. In this case, their chance of failing the next time increases as it prevents them from adapting to change (Baumard & Starbuck, 2005). Therefore, the failure should be seen as a “learning journey” (Cardon & McGrath, 1999; Cope, Cave, & Eccles, 2004). In addition, the time and resources that entrepreneurs might use for avoiding the failures may become more costly than failing and learning from it (Huber, 1991; McGrath, 1999).

The research aims to fill the gap that exists in the academic literature by combining two research fields: entrepreneurial learning and new venture failure. Figure 2 represents the preliminary conceptual model that describes the combination of new venture failure and entrepreneurial learning. The gap that this research aims to fill is marked with a bold arrow and the ambit of this research is shaded.

Research Questions and propositions

This study targets two groups, entrepreneurs and intrapreneurs. Both start new ventures, which may succeed or fail. When a venture succeeds the entrepreneurs and intrapreneurs may choose one of two options, start another new venture or continue running the venture. Although an interesting phenomenon, it is out of the ambit of this research. Likewise, when a venture fails, the entrepreneurs and intrapreneurs will choose one of two options; leave the entrepreneurial or intrapreneurial way of life, or learn from the failure and start a new venture, Figure 1 shows the route entrepreneurs / intrapreneurs may choose.

As explained above, learning can occur both from successful and failed ventures. In this schema, the learning is defined as “gain experience”, which is the result of the learning process. The arrow between the “fail” box and the “gain experience” box is the gap that this study aims to fill (marked with a bold arrow).
This thesis will ask entrepreneurs and intrapreneurs to reflect on their former actions when their ventures failed and find out what they have learned from it. The questions are retrospective as it takes time for the entrepreneurs / intrapreneurs to reflect on their actions without their responses being coloured by the grief that may be connected to the failure (Shepherd, 2003).

Therefore, the research questions for this research are:

1. How do entrepreneurs and intrapreneurs perceive venture failure?
2. What is it that entrepreneurs and intrapreneurs learn from new venture failure?
3. What is the difference, if any, between what entrepreneurs and intrapreneurs learn from venture failure?

Qualitative research answers questions related to “how”, “why” and “what”, and not those to do with relationships between different variables. Therefore, it uses propositions instead of hypotheses. Stating the propositions are the rationalisation and direction the research takes. Furthermore, it creates criteria for judging whether or not the research was successful (Yin, 2003).

The propositions in this study are based on premises that arose from the literature review chapters and supports the rigour and depth of the study (Eisenhardt & Graebner, 2007). Therefore, the propositions and premises of this research are:

Premise 1: Entrepreneurs start new ventures as stand-alone enterprises; therefore, the venture is the business (Timmons & Spinelli, 2009).

Premise 2: Intrapreneurs start new ventures in an established organisation (Morris et al., 2008).

Proposition 1: Entrepreneurs perceive business success and failure as equivalent to new venture success and failure.

Proposition 2: Intrapreneurs perceive business success and failure as equivalent to new venture success and failure.
Premise 3: There is something to be learned from new venture failure (Politis, 2005; Politis & Gabrielsson, 2009; Sitkin, 1992).

Premise 4: Entrepreneurs who have failed have more experience than entrepreneurs who did not fail (Mitchell et al., 2004).

Proposition 3: New venture failure can be identified as part of the entrepreneurs’ learning curve.

Premise 5: By learning from failures, entrepreneurs have better chances of succeeding in their next ventures (Cope et al., 2004; Deakins & Freel, 1998).

Premise 6: Experienced entrepreneurs have a constructive and retrospective view of their failed ventures.

Proposition 4: Experienced entrepreneurs can suggest ways in which they could have overcome the failures.

Proposition 5: Entrepreneurs and intrapreneurs will learn similar things from new venture failure.

METHODOLOGY

This research explores what entrepreneurs and intrapreneurs learned from the failure of their ventures. The study suggests that, although failure is not a desired outcome of a venture, there are worse case scenarios and good things can come out of it.

As the academic literature regarding what it is that can be learned from new venture and business failure is scant, this study is an exploratory qualitative project.
To understand the phenomenon of new venture failure and what entrepreneurs and intrapreneurs can learn from it, this study uses practice-based theory that explores what and how entrepreneurs and intrapreneurs suggest they have learned from their failed new venture. Practice-based theories are entrepreneurs’ narratives for making sense of what works and what does not, based on their own experiences in retrospective. Therefore, the researcher’s task is to create academic theory from the participants’ narratives (Rae, 2004b).

This research uses an innovative research methodology that does not follow one specific qualitative methodology technique (as case study or grounded theory research), but is rather a combination of qualitative and quantitative techniques that are used to strengthen the results of the research.

This research used multiple types of data; (1) primary data being collected by online survey and structured interviews, and (2) data from previous relevant research was used as a basis for validity of the primary data.

Cooper and Schilder (2003) have stated that, in qualitative research, questionnaires are self-administrated interviews and can, therefore, replace face-to-face structured interviews as a way of allowing a broader sample. Therefore, the analysis of the data treated the entire data set as data that came from structured interviews.

The chosen sampling method is purposive sampling using opportunity and snowball techniques (Tashakkori & Teddlie, 2002).

While searching for entrepreneurs and intrapreneurs to participate, an opportunity to target two entrepreneurial databases arose. Included in the databases are the last three years’ winners of Deloitte’s “Technology Fast 50” and WiT (Women in Technology) from Queensland. Both organisations agreed to send the questionnaire to their members.

The instrument was used as a structured interview with a control group of 4 entrepreneurs. An online mixed methods survey, using the same questionnaire, was distributed. 23 intrapreneurs and entrepreneurs answered the online mixed methods survey. Of the 23 participants (intrapreneurs and entrepreneurs), 19 provided their details for further
interviews. Of the contacted respondents, after further contact, only 12 were available for face-to-face structured interviews. All structured interviews used the Stocks and Blackburn’s (2002) questionnaire. The responses from the control group integrated well with that of the other face-to-face interview respondents, adding to validity and reliability.

The data from the mixed methods survey and the face-to-face structured interviews were combined, accepting Cooper and Schilder’s (2003) clarification that in qualitative research, questionnaires are self-administered interviews and can, therefore, replace face-to-face structured interviews.

Data analysis used cognitive maps to categorise the data. The cognitive map technique was developed by cognitive psychologists as a means of modelling causal relationships between variables within belief systems as reported by individual respondents. However, the use of this technique was extended to describe the characteristics of social systems (Russell, 1999). Cognitive maps are identified as a viable way of both examining the cognitive structures of entrepreneurs and undertaking the differences between entrepreneurs and corporate entrepreneurs in their cognitive structures (Brännback & Carsrud, 2009).

The cognitive maps were transformed into tables for appropriate use in the analysis and discussion chapters. The analysis used classic content analysis and word count techniques (Ryan & Bernard, 2000).

The discussion compared the results and findings from the data analysis with the relevant academic literature, using practice-based theory. Practice-based theory converts the participants’ narratives into academic theories (Rae, 2004b).

This innovative research methodology does not follow one specific qualitative methodology technique (as case study or grounded theory research). Rather, it is a combination of qualitative and quantitative techniques that are used to strengthen the results of the research. As this is an exploratory research project, this methodology seemed most appropriate, even though it is not common.
This technique spreads the main themes on paper as a base for the map (Buzan & Abbott, 2005). To simplify use in the analysis, the cognitive maps were converted to tables.

After categorising the data, the analysis used classic content and word count techniques (Ryan & Bernard, 2000).

FINDINGS AND DISCUSSION

The questionnaire was sent to 300 entrepreneurs and intrapreneurs in Australia, with a participant rate of 9%. Of the 23 participants that answered the online survey, 19 provided their details for further interviews. Of the contacted respondents, 12 were available for interviews. A control group of 4 habitual entrepreneurs, which experienced failed ventures, were identified and the same structured interviews were conducted. The responses from the control group integrated well with that of the other face-to-face interview respondents, adding to validity and reliability. Eighteen males and six females, aged between 25 and 64, answered the questionnaire, three of the participants failed to identify their gender and age.

The majority of the entrepreneurs and intrapreneurs who participated in the study are habitual entrepreneurs (22 of 24). Of the four inexperienced entrepreneurs and intrapreneurs, one is a novice entrepreneur in his first year as a business owner / manager, one has had his business for five years and two have been managing their business for nine years. Only one of these more experienced entrepreneurs stated that he purchased seven businesses prior to owning his current business, though this is the first business that he had started from scratch. As this is their first venture / business, these novice entrepreneurs have not experienced venture failure.

Two questions define if the participant is an entrepreneur or an intrapreneur. Question number 7 asks about the current business and question 31 asks regarding their entire endeavour. This study defined entrepreneurs and intrapreneurs regarding their entire endeavour. Therefore, we had 17 entrepreneurs and 7 intrapreneurs (3 participants did not answer these questions).
New Venture and Business Failure Definition, as Perceived by the Participants

There is no consensus in the academic on one common definition for business failure (Pretorius, 2009; Watson & Everett, 1993). Likewise, the participants in this study addressed business and new venture failure from different perspective. In addition to common definitions of business failure, the participants in this research used definitions that were identified as causes of failure in the academic literature. Furthermore, the academic literature does not differ between business failure and new venture failure, suggesting that new venture is equal to a business (as in the case of start-ups). However, as the current research targeted entrepreneurs and intrapreneurs and distinguished between new ventures embedded in a mature business and new ventures that are the business (start up), it seeks to observe if there is a difference in their failure definitions.

Most of the entrepreneurs that participated in this study did not distinguish between business failure and new venture failure. They have defined failure through financial reasons, as bankruptcy, closure for financial reasons, profitability or cash flow. This seems reasonable as in their case the venture is the business, therefore when the venture fails financially the entire business fails financially.

However, the intrapreneurs that participated in this study differentiate more clearly than the participating entrepreneurs between new venture failure and business failure. They defined business failure as a business that is not managed properly while new venture failure was defined as a venture that does not grow.

It is interesting to see that entrepreneurs defined success and failure as opposites. They defined a successful business or new venture as a business or new venture that make a sustainable profit, and a failed business or new venture as a business or new venture that did not make a profit.

Intrapreneurs, on the other hand, defined business success and failure as two different things, as if not on the same continuum, while defining new venture failure and success as opposites. They have defined a successful business as a business that achieved its goals,
whereas a failed business is a business that was not managed properly. New venture success and failure are defined by meanings of growth.

This confirms proposition 1 that suggested that entrepreneurs perceive business and new venture success and failure as identical, while intrapreneurs differ between them.

**Entrepreneurial Learning**

In the literature review, we defined learning as “the creation of knowledge that leads to behavioural change”. The creation of knowledge is based on the experience that entrepreneurs and intrapreneurs gain in their ventures, regardless if it is a venture in an existing business or a stand-alone new venture.

Entrepreneurial learning was confirmed by three indicators. The first is the participants' self-assessment of their change in knowledge, which is in agreement with Mumford’s (2002) learning definition. Therefore, the participants in this study were asked to rate their success as managers while managing their failed venture, between one (unsuccessful) and five (successful). In addition, they have self evaluated the change in their skills as result of their experience in the failed new venture and or business. Therefore, the participants were asked to rate the change of their skills as result of the failing new venture.

Most of the entrepreneurs and intrapreneurs stated that their skills have improved, as shown in Table 3. The change in skills confirms that the participants learned from the failed new venture. The participants that rated themselves as unsuccessful managers (rated 1 or 2), rated their managerial skill as much better, all rates were 4 or 5, these entrepreneurs show the highest level of learning.

When asked to rate their managerial skills during the time they have managed the failing venture, half of the participants rated their skills as 3. None of the participants rated their managerial skills as 5. This can result from the entrepreneurs and intrapreneurs feeling that if their venture has failed, they cannot be good managers.

The second indicator that demonstrates learning was based on Cannon and Edmondson’s (2005) learning cycle, which is established in this study by the combination of decisions
regarding failure (identify failure), decision reasoning (analyse failure) and experiences that the participant sees as useful for, or will avoid, in their next venture (as a result their next venture will become a deliberate experimentation by this learning definition).

The third indicator of learning was reinforced using experiential learning (Mainemelis, Boyatzis, & Kolb, 2002). Experiential learning was demonstrated here by verifying the connections between the experiences that the participants found either useful for, or detrimental to, their next venture (the experience in the experimental learning) and the suggestions they gave to nascent and novice entrepreneurs and intrapreneurs (transforming experience into knowledge).

Participants in this study agreed that they learn from every experience in a new venture, whether it be a good or a bad experience, and this learning helps prepare for their next venture. This type of statement confirms proposition 1 as it observes new venture failure as a learning experience, and therefore it can be identified as part of their learning curve.

Furthermore, one participant wrote “The experience (good and bad) from the previous venture is the most important aspect when going into a new venture. Each venture tends to be more successful. There is always wholesale knowledge acquired from 3rd parties, but this is probably only 10% of the benefit of my own lessons learned.” Suggesting that learning from experience is the most important type of learning that he had.

**Suggestion to Novice Entrepreneurs and Intrapreneurs**

Based on their experience from failed and successful ventures, participants were asked to share their experience by suggesting what they would take with them to their next venture and what they would avoid. In addition, they were requested to share an experience that would help novice entrepreneurs and intrapreneurs avoiding new venture failure.

Two participants answered that they do not take any useful experience from one venture to the next, as each ventures is different. However, they did have experiences they would avoid in their next venture and suggestions to novice entrepreneurs and intrapreneurs. Therefore, although they may not be aware of it they did learn from their failed ventures.
Learning from failed ventures will usually be formulated in a negative way. For example, if someone had a successful experience with his or her partners and team members, they will see it as a good experience to take with them to their next venture. However, they feel that the partners were the reason for their venture failure; they will describe it as an experience to avoid in their next venture. Either way, the learning that occurred from both experiences is the importance of finding suitable partners and recruiting member teams smartly. Therefore, the following list is a combination of all suggestions given by the participants in the study:

1. Be prepared –

   1.1. The entrepreneurs and intrapreneurs should be prepared to the reality that some ventures fail. They should detach themselves from the venture and search for fatal flaws in the planned venture before starting it. When finding the fatal flaws, the entrepreneurs and intrapreneurs should prepare a plan which contains details of how to avoid them.

   1.2. The entrepreneurs and intrapreneurs should not spend too much on building the venture before they have tested their idea and ensured that there is a real opportunity in it.

   1.3. The entrepreneurs and intrapreneurs should invest time in setting up the new venture and developing their product or service, as being first in the market is not always worthwhile. They should spend enough time and money on due diligence, and remember that bugs in the products can create bad impression.

   1.4. The entrepreneurs and intrapreneurs should conduct adequate market research, making sure that they know who their customers are and that their product or service solves the client’s pain point.

   1.5. The entrepreneurs and intrapreneurs should assume that everything takes longer, costs more and is not always applicable.
1.6. The entrepreneurs and intrapreneurs should have a good financial plan and ensure that they have sufficient funding to survive until sales produce a profit.

2. Personal

2.1. The entrepreneurs and intrapreneurs should believe in their venture, as others may try to discourage them. However, they should not let others influence them and should trust their own instincts.

2.2. The entrepreneurs and intrapreneurs should be persistent and not give up easily.

2.3. The entrepreneurs and intrapreneurs should not be over-optimistic and over-confident. They should be prepared to walk away, sooner rather than later, if they feel that the venture is not reaching its goals.

2.4. The entrepreneurs and intrapreneurs should focus only on those aspects that drive the business forward and avoid timewasters.

3. Management

3.1. The entrepreneurs and intrapreneurs should have clear goals, and write their business plan accordingly.

3.2. The entrepreneurs and intrapreneurs should not start too small, but with caution.

4. Team / Partnership

4.1. The entrepreneurs and intrapreneurs should avoid bringing in the wrong people. Hire quality staff and do not be afraid to hire smart people. Make sure they hire only staff they trust and do not worry about the costs.

4.2. The entrepreneurs and intrapreneurs should choose their partners carefully. They need to be able to complement each other and be able to work together in stressful times.
5. Financial

5.1. The entrepreneurs and intrapreneurs should be good at raising finance and avoid unnecessary costs.

5.2. The entrepreneurs and intrapreneurs should know their break-even point and the profit margins they can allow themselves in order to stay in the business.

5.3. The entrepreneurs and intrapreneurs should invest back in the business before giving dividends to stakeholders.

6. Learning

6.1. The entrepreneurs and intrapreneurs should develop the required skills to manage a new venture.

6.2. The entrepreneurs and intrapreneurs should not rely too much on professional staff. They should be able to understand basic financial statements, market research results and so on. They do not need to know how to write such documents but they need to know how to read them.

The entrepreneurs and intrapreneurs should perceive each venture as part of a learning journey. Therefore, they should accept any failure or success as a learning experience that will help them in their next venture. This list of suggestions demonstrates that experienced entrepreneurs and intrapreneurs can offer ways that will help novice and nascent entrepreneurs and intrapreneurs succeed in their first venture. These findings confirm propositions 3 and 4.

CONCLUSION

This study explored how entrepreneurs and intrapreneurs perceive new venture and business failure, suggesting that they observe it differently. While entrepreneurs did not distinguish between business and new venture failure and defined both through financial reasons, as bankruptcy, closure for financial reasons, profitability or cash flow.
Intrapreneurs defined business failure as a business that is not managed properly while new venture failure was defined as a venture that does not grow.

Entrepreneurial learning can be understood in two ways, learning to behave as an entrepreneur and entrepreneurs’ learning during their entrepreneurial career (Rae & Carswell, 2001). Understanding what can be learned from new venture and business failure can influence both types of learning.

Learning to behave as entrepreneurs – the experiences gained by practiced entrepreneurs and intrapreneurs from their failed ventures can be added to entrepreneurship courses in universities and colleges. The framework that was created here will help these nascent entrepreneurs and intrapreneurs to understand better the issues they will confront on their entrepreneurial journey.

Entrepreneurs and intrapreneurs’ learning during their entrepreneurial career – by learning from another’s failure, novice entrepreneurs and intrapreneurs may increase chances of succeeding in their first venture.

The study did not find significant difference between entrepreneurs and intrapreneurs’ learning from new venture and business failure. Therefore, the previous list of suggestions is suitable for novice and nascent entrepreneurs and intrapreneurs.

**Limitations and Future Research**

There are several limitations to this study, which need to be taken into account. The first limitation of this study is not being able to generalise the results. The study included only Australian entrepreneurs and intrapreneurs. As the attitude towards new venture failure is cultural based (Cave et al., 2001; Landier, 2005; Lee & Peterson, 2000), the results are specific to technology-based entrepreneurs and intrapreneurs from Australia.

The second limitation is that this study relies on the entrepreneurs and intrapreneurs’ perspective and self-assessment. This study asked the participants’ estimation of how their skills improved, though this was not checked in an objective way that can confirm the change in their skills.
The third limitation is the sample size. This study’s data set came from only 19 entrepreneurs and 8 intrapreneurs. As this is an exploratory qualitative research project, this sample was sufficiently large to establish the importance of the study and to show that there is a gap to be filled in the entrepreneurial academic knowledge base.

This research established what 27 Australian entrepreneurs and intrapreneurs learned from their failed ventures. This is an exploratory qualitative research project. A future study should expand the research into a quantitative study and ensure that the findings can be generalised.

While analysing and discussing the results of this research, further questions arose:

- Whether the respondents thought that the learning they specified can be used in future ventures by them and by others
- Is the entrepreneurial leap a myth and if attempted, would lead to failure?
- What, then, is the environmental isotropy?
- Can "be prepared" and "have clear goals" then mean the learning that the 'effectual' control of means along the start-up road would reduce chances of failure as claimed by the effectuation literature and counter to Stevenson's 'essence' of entrepreneurship “as the willingness to pursue opportunity regardless of the resources under control” (Stevenson & Jarillo, 2007)?
- Would accepting the suggestions, given by experienced entrepreneurs and intrapreneurs, reduce chances of failure?
- What are the "managerial required skills" the entrepreneurs and intrapreneurs should develop before managing a new venture?

These questions are important and should be addressed in future research.

As the attitude towards business and new venture failure is culturally-based (Cave et al., 2001; Landier, 2005; Lee & Peterson, 2000), it is important that future research includes
entrepreneurs and intrapreneurs from different countries, and by doing so add cultural differences to the framework.

The next step, after generalising the findings from this study, is to create a framework that will help novice and nascent entrepreneurs and intrapreneurs to learn from experienced entrepreneurs and intrapreneurs, and succeed in their first venture.

Appendices

Appendix 1: Tables and Figures

Figure 1: Conceptual Model

Source: Developed for this research
Table 1: Intrapreneurs and Entrepreneurs, Similarities and Differences

<table>
<thead>
<tr>
<th>Similarities</th>
<th>Intrapreneur</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Requirement that the entrepreneur will be able</td>
<td>• Career-related risks</td>
</tr>
<tr>
<td>to balance vision with managerial skills,</td>
<td>• Entrepreneur may have no equity in the organization</td>
</tr>
<tr>
<td>passion with pragmatism, and pro-activeness</td>
<td>• Motivation may be related more to exploiting an opportunity</td>
</tr>
<tr>
<td>with patience</td>
<td>• Time pressure is corporate driven (for example performance review cycles)</td>
</tr>
<tr>
<td>• The entrepreneurs encounter resistance and</td>
<td>• Keeping current career</td>
</tr>
<tr>
<td>obstacles, necessitating both a sense of</td>
<td>• Clear limits are placed on the financial rewards entrepreneurs can receive</td>
</tr>
<tr>
<td>perspective and an ability to formulate</td>
<td>• Interdependence of the champion with many others; may have to share</td>
</tr>
<tr>
<td>innovative solutions</td>
<td>credit with any number of people</td>
</tr>
<tr>
<td>• The entrepreneurs need to develop creative</td>
<td>• Job security</td>
</tr>
<tr>
<td>strategies for leveraging resources</td>
<td>• Dependable benefit package</td>
</tr>
<tr>
<td>• Activities involve significant ambiguity</td>
<td>• Extensive network for bouncing around ideas</td>
</tr>
<tr>
<td>• The entrepreneur must be able to recognise</td>
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<tr>
<td>opportunities</td>
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<tr>
<td>• Leaders who have a vision for creating something</td>
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<td>new of value and wealth</td>
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</table>

<table>
<thead>
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<th>Differences</th>
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<tr>
<td>• Take the entire risk</td>
<td>• Entrepreneur may have no equity in</td>
</tr>
<tr>
<td>• Entrepreneur owns all or part of the venture</td>
<td>the organization</td>
</tr>
<tr>
<td>• Motivation may come from need for independence</td>
<td>• Motivation may be related more to exploiting an opportunity</td>
</tr>
<tr>
<td>and / or exploiting an opportunity</td>
<td>• Time pressure is corporate driven (for example performance review cycles)</td>
</tr>
<tr>
<td>• Timing pressure is market driven</td>
<td>• Keeping current career</td>
</tr>
<tr>
<td>• May need to change life-style by leaving present</td>
<td>• Clear limits are placed on the financial rewards entrepreneurs can receive</td>
</tr>
<tr>
<td>career</td>
<td>• Interdependence of the champion with many others; may have to share</td>
</tr>
<tr>
<td>• Potential rewards for the entrepreneur are</td>
<td>credit with any number of people</td>
</tr>
<tr>
<td>theoretically unlimited</td>
<td>• Job security</td>
</tr>
<tr>
<td>• More independent, although should be backed by</td>
<td>• Dependable benefit package</td>
</tr>
<tr>
<td>a strong team</td>
<td>• Extensive network for bouncing around ideas</td>
</tr>
<tr>
<td>• Little security</td>
<td></td>
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<tr>
<td>• No safety net</td>
<td></td>
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<tr>
<td>• Few people to talk to</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Hisrich (1990) and Morris et al. (2008: 34)

Table 2: Change in Skills
<table>
<thead>
<tr>
<th>Change in Skills</th>
<th>1-Worse</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5-Better</th>
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<td><strong>Managerial</strong></td>
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<td>Developing business networks</td>
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<tr>
<td>Establishing systems</td>
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<td>10%</td>
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<td>20%</td>
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<tr>
<td>Identifying new opportunities</td>
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<tr>
<td>Dealing with setbacks</td>
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<tr>
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<td>Adapting to change</td>
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<td>10%</td>
<td>40%</td>
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<tr>
<td><strong>Financial</strong></td>
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<tr>
<td>Financial record keeping</td>
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<tr>
<td>Raising finance</td>
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<td>Monitoring performance</td>
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<td><strong>Adding Value</strong></td>
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<td>Team leadership</td>
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<td>Building a customer base</td>
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<tr>
<td>Promoting products/services</td>
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<td>Targeting customers/clients</td>
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Table 3: Summary of Entrepreneurs’ Learning Definition

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<tr>
<td>The process of changing experience into knowledge</td>
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<td>Enquire new knowledge, including skills and specific competencies</td>
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<td>Updating a subjective stock of knowledge accumulated on the basis of past experiences</td>
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<td>A potential for behavioural change</td>
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<td>Knowledge creation</td>
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<td>Making meaning from experience</td>
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<td>Constructing meaning through contextual experience to create new reality</td>
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<tr>
<td>Search for new technological and business opportunities and ways to capture those opportunities with adaptive and more risk-averse learning that leverages existing knowledge.</td>
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<td>The process of repeating what they do well and learn from failure by changing or abandon what they did poorly</td>
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<td>Learning experienced by entrepreneurs during the creation and development of a small enterprise</td>
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<tr>
<td>A combination of knowledge and reaction to critical events</td>
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<tr>
<td>The process by which entrepreneurs acquire knowledge from direct experience and from observing the behaviours, actions and consequences of others</td>
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<tr>
<td>Learning that occurs during the new venture creation process</td>
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REFERENCES


Cardon, M. S., & McGrath, R. G. (1999). When the going gets tough... Toward a psychology of entrepreneurial failure and re-motivation. Frontiers of Entrepreneurship Research 58-72


