LEARNING FROM NEW VENTURE AND BUSINESS FAILURE

New Venture Failure (NVF) is a well researched field, emphasising the importance of learning and recovering from it. However, discrete information on how one can learn from NVF is rather scanty. This study explores how 27 experienced Australian entrepreneurs and intrapreneurs perceive NVF, and what they have learned from it. We conclude with a conceptual model to help novice and nascent entrepreneurs and intrapreneurs succeed in their first venture, based on the suggestion given by the participants.

Keywords: new venture; business failure; entrepreneurs and intrapreneurs.

Introduction. This research represents a contribution to the academic literature on entrepreneurship by exploring what entrepreneurs and intrapreneurs learned from their failed ventures. The purpose of this study is to demonstrate what can be learnt from new venture and business failure. In addition, it reveals that although entrepreneurs and intrapreneurs perceived new venture and business failure differently, they shared similar experiences in their failed ventures, and generated similar knowledge.

New venture failure is a well-researched field (Shepherd, Wiklund, & Haynie, 2009; Sitkin, 1992), the emphasis in the academic literature is on the importance of learning and recovering from such fiascos. However, studies related to the discrete information on how one can learn from new venture failure are scanty. This research explores the relationship between the two fields: new venture failure and entrepreneurial learning. In this study, new venture and business failure is defined as "the entrepreneur’s dissatisfaction with the venture’s progression", and it is emphasized that the entrepreneurs and intrapreneurs decide whether or not their venture has failed, regardless of the objective state of a venture.

Learning is defined as a combination of behavioural and cognitive patterns: "a creation of knowledge that leads to a behavioural change" (Gulst & Maritz, 2010). It is suggested that entrepreneurs and intrapreneurs learn from every action they perform, gaining experience from both successful and failed activities. However, they learn more from critical events (Sitkin, 1992).

The 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 research concludes with a conceptual model that embeds the suggestions to entrepreneurs and intrapreneurs given by the participants.

Literature Review. New Venture Failure. There is no consensus in the academic literature on the definition of business and new venture failure (Pretorius, 2009; Watson & Everett, 1993). In addition, the attitude towards business failure is culturally based (Cave, Eccles, & Rundle, 2001; Landier, 2005). While in the United States business failure is defined as a learning curve, and it is expected that novice entrepreneurs will fail in their first venture, in the United Kingdom and Japan, entrepreneurs who have failed are described as failed entrepreneurs (Landier, 2005).

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Watson and Everett (1993) summarised 4 main definitions of business failure: business discontinuance for any reason, disposed of to prevent further losses, bankruptcy and falling short of goals. They argued that the failure rates change according to the definition of failure between the two extremes — discontinued for any reason (highest failure rate) and bankruptcy (lowest failure rate), while dissolution to prevent further losses lies between the two. However, falling short of goals is outside this continuum, as it is defined by entrepreneurs themselves and not by the authorities or any outside observer.

The approach taken in this research to venture failure is based only on the entrepreneur's decision, regardless of the objective financial state of a venture. Therefore, the definition of new venture failure is "the entrepreneur's dissatisfaction with the venture's progression". This definition fits new ventures embedded in a mature business and new ventures that are the entire businesses (as in the case of start-ups).

Entrepreneurial Learning. Skinner (1953) defined learning as a change of behaviour, emphasizing that improvement in performance may be regarded as training and not as learning. This definition was broadened by Huber (1991), who emphasized that learning is seen when there is a potential for behavioural change. Therefore, it is the process the entrepreneurs go through and not the outcome that is important.

A very different approach to defining learning comes from the cognitive and experiential learning theories, according to which learning is defined as knowledge creation (Gibb, 1997; Kolb, 1984). This definition is based on the works of John Dewey, Kurt Lewin and Jean Piaget which were published early in the 20th century (Kolb, 1984).

Cope (2005) 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, it is argued in this research project that experience can come from any venture creation, and not only from ventures that create new enterprises.

Most researchers agree that entrepreneurs' learning is a process of changing experience into knowledge, or just gaining knowledge. Throughout this study, the general definition that entrepreneurs' learning is a process of changing experience to knowledge is accepted. Therefore, entrepreneurs' learning is defined as "the creation of knowledge that leads to behavioural change".

Learning from Failure. New venture failure can occur in new ventures embedded in an existing organisation (intrapreneurship), or in stand-alone new ventures (entrepreneurship). For clarity of reading, this section will address intrapreneurs and entrepreneurs as entrepreneurs.

Venture failure is probably the one thing that almost all entrepreneurs face at some point in their endeavours. At the same time, failure is probably the last thing on the mind of an entrepreneur starting the entrepreneurial process (Pretorius, 2008).

Venture failure can be addressed negatively or positively. While negative outcomes of failure are monetary and emotional costs, positive effects are associated with learning, gaining experience and other cognitive constructs (Mitchell, Mitchel, & Smith, 2004). Furthermore, many researchers emphasize that failure represents an essential requirement for learning. Therefore, failure is an experience entrepreneurs gain as a part of their learning (Cave et al., 2001; Cope, Cave, & Eccles, 2008; Sitkin, 1992; Stokes & Blackburn, 2002).
Shepherd (2003) emphasises 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. However, McKenzie and Sud (2008) demonstrate that although it is important to learn from failure, there are cases in which nothing is to be learnt from a failure. However, the belief expressed in this study is that even from such failure entrepreneurs should learn, if they reflect on their actions, to avoid possible negative moments in the future.

Research Questions. This study targets two groups: entrepreneurs and intrapreneurs. Both start new ventures, which may succeed or fail. When a venture succeeds, the entrepreneurs/intrapreneurs may choose one of two options: start another new venture or continue running this one.

When a venture fails, an entrepreneur or intrapreneur will choose one of two options: leave the entrepreneurial/intrapreneurial way of life, or learn from the failure and start a new venture.

Therefore, the research questions for this thesis 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?

Research methodology. As the academic literature on what can be learnt from new venture and business failure is minimal, 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 a practice-based theory that explores what and how entrepreneurs and intrapreneurs suggest they have learnt from their failed new ventures (Rae, 2004).

The study employed a multiple method research approach; primary data were collected by online survey and structured interviews. In addition, secondary data were collected from previously published researches to serve as a basis for establishing validity of the primary data.

The chosen sampling method is purposive sampling using opportunity and snowball techniques (Tashakkori & Teddlie, 2002). The instrument that was used for the structured interviews and the online questionnaire was based on Stocks and Blackburn's (2002) questionnaire. It was adapted to the Australian context, and relevant questions were added. Pretesting was implemented on academics and practitioners.

Results. 21 male and 6 female participants answered the questionnaire. The age of the participants varied between 25 and 64. 63% of the participants held a postgraduate degree.

The majority of the entrepreneurs and intrapreneurs who participated in the study are habitual entrepreneurs (22 of 24). Of the 4 inexperienced entrepreneurs and intrapreneurs, 1 is a novice entrepreneur in his first year as a business owner/manager, one has had his business for 5 years, and 2 have been managing their businesses for 9 years.
How Entrepreneurs and Intrapreneurs Perceive Venture Failure. This research differentiates between a new venture and an organisation. An organisation is a legal entity, while a new venture can be the whole organisation (as in a start-up), and therefore, a legal entity, or an entity embedded in a mature organisation. The new venture is usually a method of commercialising new products or services. Entrepreneurs who operate new ventures embedded in mature organisations are titled corporate entrepreneurs or intrapreneurs.

Definition of Business Failure. The academic literature suggested 4 definitions of business failure: discontinued for any reason, bankruptcy, failing short of goals and closure for financial reasons (Watson & Everett, 1993). In this study, the participants agreed with the last 3 definitions, though none stated that every closure of a business is a failure. Furthermore, one of the entrepreneurs stated that, as long as he learnt from his mistakes, rose up and started a new business, the former business was not a failure.

Both entrepreneurs and intrapreneurs agreed that business closure as a result of bankruptcy, insolvency, administration or liquidation is a failure. Furthermore, they agreed that a business fails if it is sold at a price below its true value, confirming the second and third definitions from the literature.

One of the definitions in the literature was falling short of goals. Entrepreneurs and intrapreneurs reported that they felt their business failed when it did not achieve its goals, or they found a crucial flaw in the business plan, or even if it was just less successful than they hoped it would be.

New Venture Failure Definition. Entrepreneurs and intrapreneurs are unanimous in their definitions of venture failures attributed to finance issues. This includes closure for financial reasons, failure to achieve break even or a return on investment or just failure to generate enough cash to pay bills. However, in the case of a new venture, the closure may occur for another unspecified reason. For example, an organisation decided to abandon the venture for management reasons. In a separate question, the participants were asked how they would decide that a venture was failing. One of the participants answered that the venture fails when the organisation's management stops paying attention to it.

Like business failure, some of the participants defined venture failure as falling short of goals.

When defining new venture failure, entrepreneurs referred to the product, emphasising that venture failure equates to the failure of the product. A different definition suggested that a failed venture was a marketed product superseded by newer technology. These definitions are mentioned in the academic literature as reasons for venture failure and not as failure definitions (Gulst & Maritz, 2009; J. Lee & Lee, 2005). However, it is interesting that, although it is most likely that this was the reason for the venture's failure, the entrepreneurs saw it as the definition of venture failure. We assume that these entrepreneurs had a venture that failed for this reason and, therefore, this signifies a failed venture.

A different definition came from an intrapreneur who said that a venture failed when it had provided him with no meaningful learning. Another entrepreneur offered this definition as well, though, he did not repeat it in the interview and consequently it is not mentioned in the data.
**Change in Skills as a Result of New Venture / Business Failure.** 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 of whether it is a venture in an existing business or a stand-alone new venture.

Therefore, the participants in this study were asked to rate their success as managers while managing their failed ventures, between 1 (unsuccessful) and 5 (successful). In addition, they self-evaluated changes in their skills as the result of their experience in the failed new venture and/or business.

When asked to rate their managerial skills during the time that they managed the failing venture, half of the participants rated their skills as level 3. None of the participants rated their managerial skills as level 5. This can result from the participants' feeling that if their venture has failed, they couldn't be good managers. When asked to rate the change in their skills as result of the failing new venture, most of the entrepreneurs and intrapreneurs stated that their skills had improved. The change in skills confirms that the participants learned from the failed new venture.

It is to be expected that some of the participants would mention that there was no change in their skills. However, it is interesting to see that some participants said that their managerial skills were worse. This can occur as a result of their reaction to the failure that might lead them to develop a disbelief in themselves, and negative feelings toward venture failure which suggests that if the venture failed, then they were not good managers.

**Suggestions from Experienced Entrepreneurs and Intrapreneurs.** Based on their experience gained 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 avoid new venture failure.

2 participants answered that they would not take any useful experience from one venture to the another, as each venture is different. However, they mentioned experiences they would avoid in their next venture and offered suggestions for novice entrepreneurs and intrapreneurs.

On the other hand, entrepreneurs and intrapreneurs emphasized that they learn from each venture and come more prepared to the next one. They stressed that after failed ventures they know what can go wrong, and can prepare more effectively for next time.

An important experience that entrepreneurs and intrapreneurs take with them to the next venture is the importance of choosing the right team members and partners. This theme appeared as an experience in all 3 questions. If participants had a bad experience with partners or team, they would write about it as an experience to avoid. Partners and team members are known in the academic literature as one of the reasons for business failure (Gulst & Maritz, 2009; McKenzie & Sud, 2008). Therefore, it was expected that entrepreneurs would raise this issue when asked for ways to avoid venture failure and/or experiences to be taken into (or to be avoided) in the next venture.

Another experience that appeared as an answer to all 3 questions was the importance of preparation. The participants emphasized that it is very important to be pre-
pared, to plan in detail, conduct market research and have enough funding, all before starting a venture.

The study did not find significant difference between the experiences that entrepreneurs and intrapreneurs suggested they would utilise or avoid in their next venture.

**Discussion and Conclusion.** The participants did not distinguish between causes of failure and definitions of failure, as is done in academic literature. Therefore, they have defined venture failure in phrases that the academic literature used to define as causes of failure.

**New Venture and Business Failure Definitions.** This study rejects 3 academic definitions of failure: discontinuance of ownership, the firm's value falls below the opportunity cost of staying in business and business turnover. In addition, this research accepts the definition of failure "ventures that fail to provide an adequate return for the VCs", with a slight change. The entrepreneurs and intrapreneurs who participated in this research disregarded the venture capital firms and emphasized that a firm should provide an adequate return that should be invested back into the business.

In addition to causes of failure and common definitions of failure from the academic literature, entrepreneurs and intrapreneurs provided definitions of business and new venture failure related to their personal experiences. These definitions emphasize the feelings the entrepreneurs and intrapreneurs have towards the failure. Although these definitions can be attributed to the "falling short of goals" definition, they come from a personal view regarding grief, learning, creativity and stress.

In the new business-related definitions, the participants defined failure as a flaw that was found in the business. Although this can be attributed to managerial failure causes, it is more detailed and takes a different point of view from failure definitions and causes that were found in the academic literature.

As described in the data analysis, entrepreneurs and intrapreneurs perceived business and new ventures in different ways. While entrepreneurs did not differentiate between a new venture and a business, intrapreneurs saw them as two separate entities. Therefore, entrepreneurs included business failure and new venture failure in the same definition, while intrapreneurs placed each type of entity in a different category.

The majority of the entrepreneurs who participated in this research defined a failed new venture and business as "a business or new venture that does not make a profit and lacks cash". On the other hand, the majority of the intrapreneurs who participated in this research defined a failed business as "a business that is not managed properly", and a failed new venture as "a venture that does not grow". It is interesting that the intrapreneurs defined business failure in terms that attributed blame to the business managers.

However, the second-most common definition for business and new venture failure was accepted by the entrepreneurs and intrapreneurs. They defined a failed new venture and business as "a new venture or a business that is falling short of goals".

**Entrepreneurial Learning.** Entrepreneurial learning is confirmed by 3 indicators. The first is the participants' self-assessment of their change in knowledge, which is in agreement with Mumford's (2002) definition of learning.

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

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) and the suggestions they gave to nascent and novice entrepreneurs and intrapreneurs (transforming experience into knowledge).

**Recommendations – Practical Implications.** Although intrapreneurs distinguished between new ventures and businesses, whilst entrepreneurs saw them as the same, the study found that the entrepreneurs and intrapreneurs learnt similar things from venture failure. Figure 1 shows the updated conceptual model of this research. It embedded the experiences gained by the participants from their failed ventures. These experiences were expressed as suggestions to novice and nascent entrepreneurs and intrapreneurs.

Before entrepreneurs and intrapreneurs start new ventures they should prepare. They should evaluate their opportunity, develop the required skills to manage the new venture and be emotionally prepared for the possibility that the venture might fail. After starting the new venture, they should be persistent and believe in it.

However, they should not be over-optimistic. Hopefully, the venture will succeed. However, if not, the entrepreneurs and intrapreneurs gain experience by reflecting on their actions and start a new venture.

**Implications.** 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 learn during their entrepreneurial career — by learning from another's failure, novice entrepreneurs and intrapreneurs may increase the chances of succeeding in their first venture.

**Limitations.** There are several limitations to this study, which need to be taken into account. The first limitation is not being able to generalise the results. The study included only Australian entrepreneurs and intrapreneurs. As the attitude towards new venture failure is culturally based, the results are specific to technology-based entrepreneurs and intrapreneurs from Australia. Furthermore, 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.
Be Prepared:
- Invest time in setting up a new venture and developing their product or service
- Entrepreneurs and intrapreneurs should conduct a formal opportunity evaluation prior to attracting extensive resources to the new venture
- Develop the required skills to manage the venture
- Be prepared for the reality that some ventures fail

Start a new venture
- Personality:
  - Be persistent, proactive and believe in the venture
  - Do not be over-optimistic
  - Have clear goals

Identify that the venture is failing
- Venture Failure

Gain experience:
- Perceive the failure as a learning experience
- Reflect on the reasons the venture failed

Successful venture

Exit entrepreneurial activities

Source: Developed for this study

Figure 1. Updated Conceptual Model
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 could confirm the change in their skills.

**Future Research.** Being a qualitative exploratory research, it had a small data set. Any future research should ideally be expanded into a quantitative study and include entrepreneurs and intrapreneurs from different countries, thus enabling the findings to be generalised and the effect of cultural differences to be included.

**References:**


ORGANISATIONAL INNOVATIONS