



FAILURE IN INTERNATIONAL BUSINESS AND ENTREPRENEURSHIP

Literature review on definition of failure and its causes

Master's Thesis

Author:

Ann-Sofie Leimu

Supervisors:

D.Sc. Niina Nummela

D.Sc. Eriikka Paavilainen-Mäntymäki

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The originality of this thesis has been checked in accordance with the University of Turku quality assurance system using the Turnitin OriginalityCheck service.

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1 INTRODUCTION

The possibility of failure characterizes entrepreneurship and all business. However, it is not a desirable outcome of any business activity, since it can be excruciating and unpleasant experience that not only affects the company itself, but usually the entrepreneur or management, staff and other stakeholders as well. Nevertheless, failure research has received far less attention than research on business successes. Studying failures represents an essential research field for understanding the challenges of entrepreneurship and business.

It has been shown (e.g. Chang 1996) that organizations constantly search for new business areas to enter and unprofitable ones to exit in order to enhance the overall performance. At the same time companies build and focus on their existing knowledge bases, which in turn contribute to the firm's overall performance once again. This process of entering and exiting while building knowledge bases is not only a central part of today's business world but also deeply linked to failures.

Failure is a deviation from expected and desired results, including avoidable errors and unavoidable outcomes as a result of experimenting and risk taking (Cannon & Edmondson 2001). When failure is discussed in business context, many associates it with bankruptcy, which in fact, is one interpretation of failure. However, failure is a much more complex and multifaceted term, that is not easy to define perfectly and without misinterpretations. Nonetheless, it is a crucial phenomenon as the consequences affect individuals, organizations and society (Cardon et al. 2011), and stimulates reactions from governments, unions, workers and other parties (Benito & Welch 1997).

Dicken (2003, 198) summarized the MNCs as companies (1) that coordinate and control various stages of value-added activities within and between countries; (2) can take advantage of geographical and national differences in resources and policies; and (3) have considerable potential for geographical flexibility, i.e. the ability to switch their resources and operations between locations at an international or global scale. According to Benito (2005) the two first characteristics have been researched the most whereas the relocation and divestment aspects of MNC activity are only limitedly studied. Internationalization has been a big interest of business academics, since it provides an explanation of some of the driving forces that help the company to move forward internationally over time, and according to Benito (2005) a special focus has been on MNCs. But, do these forces also operate in reverse, perpetuating a withdrawal process? Furthermore, MNCs vary remarkably, since they are reflecting the particularities of their home bases, but also due to their different internationalization strategies (Benito 2005). Are there remarkable differences on the likelihood of failure for different MNCs?

According to Benito and Welch (1997) researches on decline or international exit are far less common probably due to the negativity and undesirability associated with it. Crick

(2004) continues in the same spirit: it seems that the issues relating to the discontinuation of export management in SMEs have been under researched.

As Burt et al. (2003) studied international failures in the retail business, they noted that there are multiple reasons for the lack of consideration of failure in retail international activity. Firstly, the results of success in retail business seem to be remarkably more visible in most situations. There seems to be a “survivorship bias” (Forsgren 2002), which means excluding foreign investments that have terminated from analyzes, and thus, causing the international behavior to seem more step-wise and path dependent than it actually is. Secondly, retailers are ignoring failures instead of learning from them and memorizing them. Managers associated with the failure may leave the organization and PR departments focus on the success stories. Thirdly, Burt et al. notice that researching failure is also probably more difficult and thus less tempting to the same reasons as mentioned above. Fourthly, the definition of failure itself is challenging – as we will notice in the upcoming chapters.

From managerial point of view Denrell (2003) noted that due to the biased sample of organizations usually missing failures and academic literature’s greater interest towards success, there seem to be a variety of false beliefs on management. It seems that failures are studied scantily or only partly, even though it is definitely a central phenomenon in business and practically a common end result for all organizations at some point. Not only we do have to make a proper understanding from MNC’s point of view, but also from managerial and entrepreneurial perspective. There are several types organizations acting internationally: not all of them are MNCs or part of a global conglomerate. In today’s globalized world even the smallest firms act in an international environment and thus, the entrepreneurs are constantly facing challenges from the international markets. A remarkable part of entrepreneurship literature focuses on failure, especially from entrepreneur’s personal viewpoint, but also from the perspective of business and society. For this thesis, it is relevant to understand failure in the whole international business context, and since failure is quite broadly studied in the entrepreneurship literature, international entrepreneurship is a major theme of this thesis.

This thesis aims to answer the following research question and sub-questions:

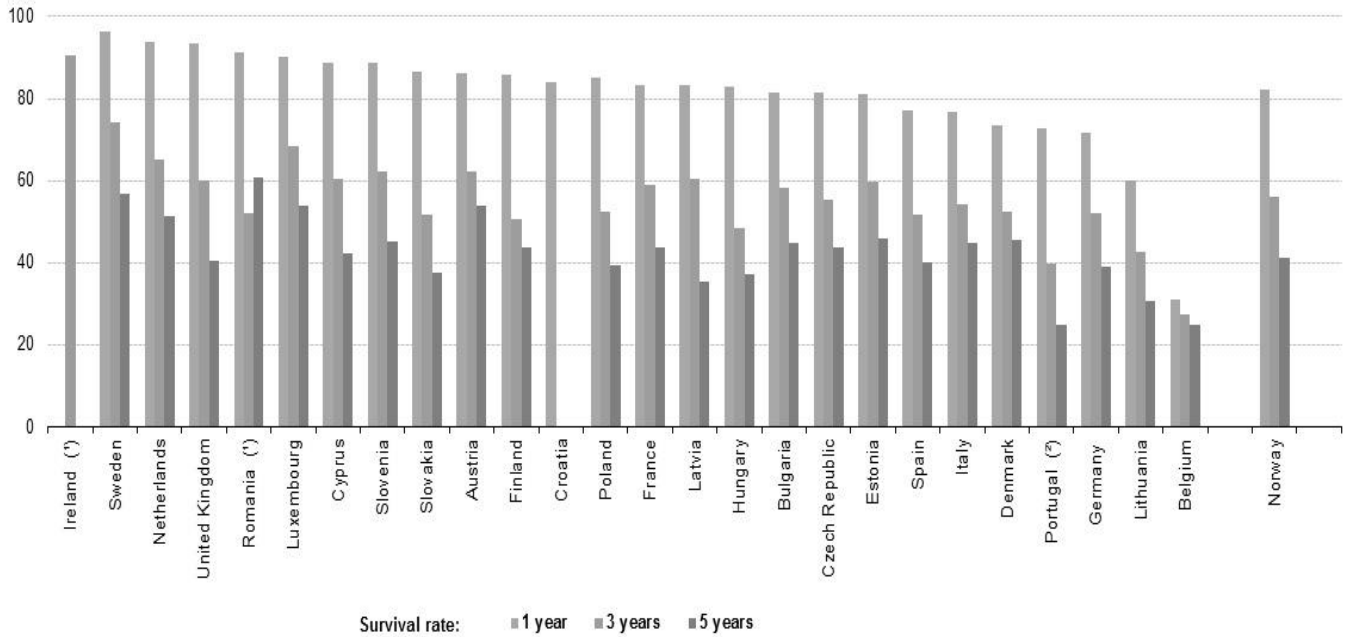
- What is failure in international business and entrepreneurship literature?
 - What other terms are used to describe the concept of failure?
 - What are the most relevant and most studied causes of failure from different organizational viewpoints?

In other words, this research focuses on understanding what is failure as a central phenomenon of business, and it bases on existing academic literature. During the upcoming process author will thoroughly go through commonly used determinations and study also related terminology to fully explain the phenomenon. Additionally, author will go through the most relevant causes of failure from three perspectives, to properly set

base for further studies on the subject. The idea is not to build practices with which companies or their management/entrepreneur would be able to avoid failure, or to give complete answers on why failures happen.

Failure is seen as a negative and undesirable phenomenon, which may divert attention away from possible positive outcomes of failure, such as learning dynamics (Stokes & Blackburn 2002). According to multiple researches business failure can be beneficial for the economy, since it releases knowhow and other resources from unprofitable firms to more successful ones (Knott & Posen 2005; Hoetker & Agarwal 2007). This increases the efficiency of resource use in society as these reallocations of resources can in turn be used for new ventures (Delacroix & Carroll 1983). However, the concept of entrepreneurial learning from failure is also criticized as it is claimed to strengthen a bias in research of entrepreneurship. According to criticism failures are repackaged as successes (Coad 2013) which can be seen as a dangerous path for both the trustworthiness of the research, and also for the society. The possible positive outcomes and the criticism towards successful failures are better studied in the following chapters.

In Figure 1, for the first time Eurostat was able to track young firms over a five-year period from 2009 to 2014, tracing how many of them were able to survive. Looking at the one-year survival rate, it appears that about 80.0 % of the enterprises born in 2013 had survived in 2014 – the highest rate being in Sweden, where 96.5 % survived the first year, whereas in Belgium the rate was only 31.1 %. The five-year survival rate of enterprises born in 2009 and still active in 2014 shows that less than half (44.0 %) of the enterprises survived. In Austria, Latvia, the Netherlands and Romania the survival rate was highest during the five-year period, whereas once again in Belgium it was the lowest. It is not specified whether the death was due to actual business death, or because of merger or break-up. Interesting issue is: what are exactly the forces that might lead to failure, and what are the possible consequences of it?



(*) Ireland (1 and 5 years): confidential data; Romania (3-years): break in series

(*) Portugal: 2012 data for 5-years

Note: Greece, Croatia (3 and 5 years) and Malta: data not available

Figure 1 Survival rates in different European countries, 2014 (Eurostat 2016)

These survival and death rates are in line with the findings from academic research. Probability of closure is highest during the first years and it declines during time (Hall 1995). This is also the case with small versus big firms: micro-firms employing less than 10 people are more likely to close than small firms (< 50 employees). These in turn are more at risk to close than medium sized companies (Reid 1997; Stokes & Blackburn 2002).

It seems that there is still a remarkable amount of research to be done concerning failure from various aspects. In this research, the author analyzes failure in international business and entrepreneurship by defining the terminology thoroughly and by approaching the subject from three perspectives and fourthly, shortly studying antecedents and consequences of failure. These viewpoints have contributed to an understanding of the circumstances and driving forces that are likely to lead to failure development.

2 METHODOLOGY

2.1 Research method

As Berg (2004, 3) notes, that instead of debating the value of different research methods, it is more useful to discuss the merits of each approach. In business research, especially international business research, author has to decide whether to use quantitative, qualitative or mixed methods in the study. The research question is the key factor in making methodological decisions: which method suits best for the purpose of answering the research questions (Creswell 2014, 20). Usually the methods mentioned above are the most suitable ones for empirical research that require narrow research questions (Eriksson & Kovalainen 2008, 38).

In the research field of business and economics, scientific and economic objectives are often contradicting, which is why in this field methodology for non-empirical research is not extensive. It seems that (especially in master's thesis) theoretical research is far more unusual compared to empirical which is often viewed as more realistic research method. Non-empirical research includes the often-confused concept analysis and theoretical research. Conceptual research refers to the concept definition and clarification, whereas theoretical research involves other theoretical areas. (Kallio 2006, 510–517) The division between empirical, non-empirical, theoretical and conceptual research is described in Figure 2.

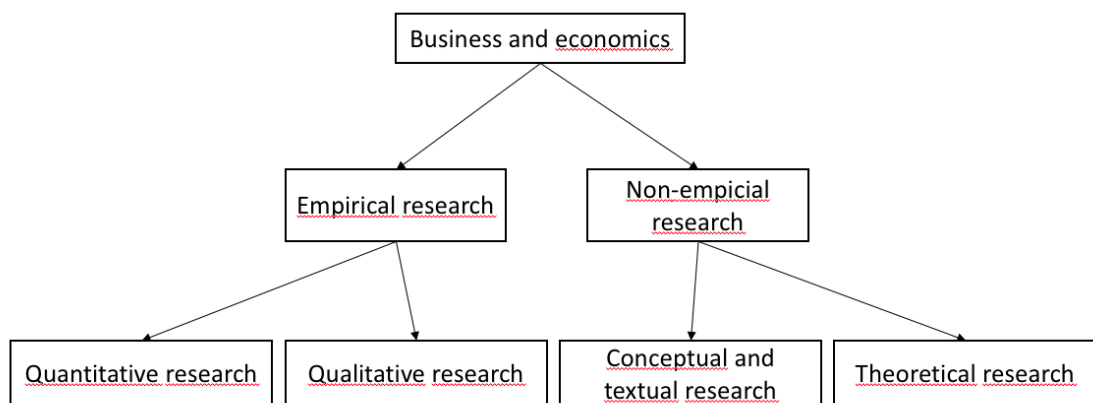


Figure 2 Research methods in business and economics (adapted from Kallio 2006, 518)

The subcategories in Figure 2 include more specific research methods, e.g. factor analysis, structured interviews, descriptive conceptual research and basic theoretical

research. Obviously, the categorization is a simplified representation of the research field, and some crossing and blur of definitions might appear. (Kallio 2006, 517–18)

Whereas empirical research is strongly based on first-hand empirical data, non-empirical research builds on thinking, reasoning and interpretation (Kallio 2006, 520), which apply to this particular thesis as well, as the study is drawn on second-hand empirical data and other previous findings. Non-empirical method is suitable for this particular setting where the idea is to understand a concept, as well as map and conclude already existing knowledge to better understand a complex phenomenon. As Rowley and Slack (2004, 31) determine, a literature review is “*a summary of a subject field that support the identification of specific research questions*”. It identifies and organizes the known concepts from relevant literature.

This thesis aims to answer the following research questions and sub-questions:

- What is failure in international business and entrepreneurship literature?
 - What other terms are used to describe the concept of failure?
 - What are the most relevant causes of failure from environmental, organizational and individual perspective?

For this thesis’ purpose, a literature review is most suitable research method. According to Eriksson and Kovalainen (2008, 44) the purpose of a literature review is to “*explore, summarise, compare, and critically analyse what has been written by other researchers about the topic of your research*”. Boote and Beile (2005) continues by describing literature review as a thorough and sophisticated research method that is the basis and inspiration for significant and valuable research.

As the purpose of this thesis is to develop a deep understanding of the literature related to the subject, the choice of literature review is a justified methodological decision. Author uses both theoretical and research approaches (Cooper 1998, 3) to be able to evaluate earlier empirical research and to determine the most relevant references for the research questions.

Eriksson and Kovalainen (2008, 47) determines two types of literature review: evaluative and descriptive. This thesis is considered as an evaluative and critical analysis, since it reorganizes and analyzes prior studies to better understand the subject and to produce new knowledge of it. This research is based on the presumption that academic discourse has developed during time by authors actively reviewing earlier studies, and further developing them into new or better theories and frameworks.

The thesis is exploratory in its attempt to create a thorough understanding of the academic research on the subject. To avert misconception and misinterpretation caused by a too narrow perspective or sampling, a remarkable amount of literature was examined. Additionally, it must be noted that the purpose of this research is not to test a theory or framework. Mayler and Blackmon (2005, 11) compare three research types: basic,

development and commercial. This thesis is defined as the first one, as it aims to understand the subject without a defined practical application.

Failure has been studied from multiple angles. It is a significant and complex concept that attracts and requests a widespread set of approaches. There are insights provided by geography, economics, business research, sociology and politics, but in this case the most fruitful and relevant studies concern business research. However, it must be stated that all different fields overlap each other in some extent. Objective of this thesis is to study failure from multiple perspectives and find research areas that are understudied or contradictory. While keeping in mind the purpose of this thesis, the scope and comprehensiveness must be taken into account. Since for master's thesis time resources are limited, and length of the research must be kept within certain limits, a better result is achieved by focusing on a basic level of knowledge. Going too deep into details or going through every possible field of study, is not relevant. Thus, fields of study like psychology or geography is set out of the scope.

As Rowley and Slack (2004) note, concept mapping is a useful way to identify key concepts and research terms, to clarify the structure of the literature review, and to understand the possibly complex entity of theories, concepts and approaches, and the relationships between them.



Figure 3 Structure of the research

Figure 3 represents the structure of this thesis, which is based on author's first concept maps and was thoroughly completed during the process to its final form. The goal in this thesis is to focus on neutral analysis on the subject, i.e. avoid the biases that exist in the research field and study the criticism thoroughly in addition to the commonly accepted theories and frameworks.

2.2 Research protocol: 6Ws

To critically survey this research, a systematic research method is needed. The author hereby discusses the research design following Callahan's 6Ws: who, when, where, how, what and why.

2.2.1 *Who (conducted the search)*

The author collected several dozens of academic articles from multiple databases to analyze the subject in a relevant manner. In other words, since this research is author's master's thesis, there are some limitations due to the timeframe suitable for the work. The work is completely conducted by one author and reviewed by two supervisors that changed in the middle of the process.

In literature review process there are five steps: scanning material, making notes, structuring the literature review, writing it, and finally, building a bibliography (Rowley & Slack 2004). These steps were also central in conducting this thesis. After mapping the subject, the possible content of the thesis and roughly limiting the research, the author began to scan relevant material. During this step the structure of the thesis as well as the research questions started to take shape.

The process was cyclic – the author constantly repeated the steps above, instead of going only once from step one to final step. This is due to the challenges in limiting the subject, the complexity of the phenomenon and the emergence of additional or more interesting themes. During the process the references were carefully listed in to the references chapter to create a bibliography on the subject.

Since the structure, heading and research questions kept evolving during the process, the final step was to make sure that the ensemble is coherent and uniform. Some adjustments were still made to ensure the quality of the research. Final changes were made based on the feedback gotten from supervisors.

2.2.2 *When (were the data collected)*

The collection of relevant academic articles began in first quarter of 2017, and the last articles were downloaded during the first quarter of 2018. Due to author's other responsibilities the data collection was not conducted in a stable intensity; instead there were times that the research did not advance. This thesis was carried out in a timespan of ca. 14 months with varying intensity. Every step during the process were deliberated without haste and carried out as meticulously as possible in order to insure an even quality of it.

The articles used in this research have been published between the years 1975 and 2017. As business research develops rapidly, the risk of obsolete information and data is high, and thus, the limit for the publishing year was set to 1975. Additionally, setting a proper timeframe is justified by theoretical and research issues, as author was able to recognize the first relevant, reliable and valid studies to be published in the 1970s. The data collection process brought two articles published in 1976 as the first relevant publications in the field of international failure and failure process. Finally, as was mentioned before, master's thesis is a quite limited study, and thus, setting a timeframe is useful to be able to limit the scope and comprehensiveness of the research. The distribution of the articles used in this thesis are presented in the following Table 1.

Table 1 The number of articles published during a certain timespan

Timespan	Number of articles
1975-79	6
1980-84	4
1985-89	7
1990-94	9
1995-99	25
2000-04	22
2005-09	17
2010-14	11
2015-	2

It is interesting to notice, that according to the data used in this thesis, studies on international failure got more of academia's attention in the mid-90s, which could be in line with the aftermath of the early 1990s recession in the Western world. Unfortunately, we cannot do a too straightforward conclusion on this matter, yet.

2.2.3 *Where (were the data collected) and How (were the data found)*

As one of the main purposes of literature review is to summarize the timely knowledge on a particular subject, and to identify themes in which further research would be beneficial, the evaluation of sources used in this thesis is important. As academic literature is characterized by a solid theoretical basis with more critical treatment of concepts/models, the core of this thesis is in academic research, but obviously some relevant sources are from professional business literature.

To ensure the quality of the material reviewed the author monitored valid data collection, appropriate methodologies and interpretations based on the data (Fink 2005). The articles used were reviewed in two ways: by searching for citations on the subject from newer studies and by evaluating the use of well-established theories and frameworks.

Literature from academic journals especially and related to failure in international business and entrepreneurship was searched in multiple databases: JSTOR, ABI/INFORM, Emerald, Google Scholar and Business Source Complete. Author used multiple keyword combinations in order to find the most relevant literature. The most important keywords were: *international business, entrepreneurship, failure, withdraw*, exit, de-internationaliz(s)ation, business death, divestment, consequences, causes, timing, decision-making, and process.*

Still, these searches resulted a quite extensive amount of literature, which had to be minimized to a reasonable amount. The author limited the search results to focus on articles that have been published between 1975 and 2017, that have been written in English and were specifically business-related articles published in academic journals. The author then moved to screen primarily the headers of the articles, and secondly the abstracts to evaluate the relevance of the content.

2.2.4 *What (did author keep and what discard) and Why (final selection criteria)*

With such an extensive amount of literature some major alignments had to be done to efficiently focus on the core of the research. The author decided to exclude articles that focused clearly on individual's viewpoint, unless it was studied from a larger perspective, i.e. significant for society or business world. For example, entrepreneur's learning from failure is included to this thesis, since it can be seen to benefit the society as a whole by augment the knowledge level.

Themes that are completely excluded from this thesis are e.g. stigma, entrepreneur's future after failure, and sociological and psychological viewpoints. In addition, the author decided to limit studies concerning preventative action to minimum, since as a theme it

is immense and would blur the main core of the thesis. Nevertheless, the theme is scratched when discussing anticipation and prevention of failure. The findings of this thesis can be still used to prevent failure by understanding the basic risk factors and failure mechanisms.

The perspective of individual is also mostly left out, even though at some points it is relevant to note it too. Additionally, to keep this thesis in a reasonable length the societal viewpoint is left out of the research questions – larger analysis of failure's impact for society's structure or macroeconomic condition is not taken into account. Additionally, the author decided to study the subject through five themes rising from previous academic literature. These themes are delimited to exclude for example legislative perspective (i.e. when does a company cease to exist from legislative perspective). The themes are chosen to support the research questions and justified by being highly relevant to international business and entrepreneurship.

The decision, whether to include a specific article to this thesis, was not always obvious nor clear. The author focused on finding the most well-known articles (measured in the amount of citations) as well as including articles that clearly supported existing literature and brought new insight to the subject. However, especially due to the problematic determination of failure the decision making concerning inclusion is extremely difficult. In other way around, some articles and studies might be missing from this thesis, since master's thesis is limited both in length and time of preparation and as the amount of literature was relatively large.

Even though the search results from databases resulted to be large, the core of the failure studies was narrow. In other words, the number of articles and relevant literature containing the searched keywords was rather immense. This is probably since failure is a central part of generally all business and entrepreneurship. However, articles studying and discussing failure *per se* were actually rather rear, and thus, the core is relatively narrow.

As will be noted multiple time in this thesis, compared to studies concerning success, failure is definitely understudied as a phenomenon. Considerable amount of the result from databases either were not related to business nor entrepreneurship, and moderately promptly it was easy to recognize the most important and central studies on the subject. From there, the author researched the articles that cited the original ones and found out that the field is actually quite splattered. A combining, standardizing and clarifying study is still needed. Thus, this thesis aims to clarify the diffused area of research.

The articles used in this thesis are published in multiple different journals with a wide thematic range. Most of the journals are based on entrepreneurship, small business management, strategic management and international business, but some to economics and finance. In Table 2 are listed the journals providing at least three articles to this thesis.

In addition to these, dozens of other academic journals from several fields were used in this thesis.

Table 2 The most relevant academic journals used in this thesis

Academic Journal	Articles referenced in this thesis
Journal of Business Venturing	8
Strategic Management Journal	6
Journal of Small Business Management	4
The Academy Management Review	4
Administrative Science Quarterly	3
Journal of International Business Studies	3
Academy of Management Journal	3
Management Science	3
International Small Business Journal	3

Finally, author narrowed the research to focus on studying failure in the context of international business and entrepreneurship from organizations' viewpoint in particular. Slightly over 100 articles were included to this thesis. The topics discussed in this thesis are applicable to most organizations acting in international environment. However, it must be noted that since the subject is studied on a rather universal manner, and since the phenomenon of failure is rather complex, all the aspects of the research are not applicable to every case of failure – at least not straightforwardly.

2.3 Quality of the research

The trustworthiness of a research and the evaluation of it are essential parts of a research process for two reasons: they give a feedback on the success of the work and help in judging the reliability and usability of the results.

Boote and Beile's (2005) categorization is commonly used in the evaluation of literature reviews. They use five categories: 1) coverage, 2) synthesis, 3) methodology, 4) significance, and 5) rhetoric. This categorization is used for doctoral dissertations but can be also adapted for other researches, such as master's thesis.

The coverage is measured by the how well the criteria for inclusion and exclusion is justified. This is probably the most challenging part in this thesis, as discussed in chapter 2.2.4. It seems that the extent of previous studies is large enough, though the risk that some relevant studies have been left out is existing due to limited amount of time used to this type of a study. The author used over 100 failure-related academic articles for this research, which can be seen as a sufficient number when the type of the research (master's

thesis) is taken into account. Author was also able to justify the limitations of the study and identify the possible deficits of the chosen limitations.

Synthesis consists of six claims: a research should 1) critically examine what has been already researched and what not, 2) position the subject clearly in broader academic discourse, 3) critically position the research in the historical timeline of the subject, 4) acquire and improve the vocabulary of the subject, 5) note and articulate essential variables relevant to the subject, and 6) synthesize and preferably offer new perspectives.

In this thesis, the analysis' emphasis is on already existing knowledge, but author suggests themes and subjects for further research as well. The broader academic literature perspective is not actively present due to nature of the thesis. The historical context is taken into account in some extent, but not as the main focus. A great deal of emphasis is put on subject vocabulary to properly understand the different nuances of phenomenon. Even though relationships between essential variables are discussed, but new relationships are not proposed. The perspective used in this thesis on the failure literature is not new, but a wide and thorough understanding of the phenomenon was missing in academic research.

Methodology category refers to identifying main research methods and techniques used in the field, their advantages and disadvantages, as well as related ideas and theories in the field to research methodologies. In this thesis, methodologies and their appropriateness are noted, but a deeper understanding of this subject could be beneficial.

Significance criterion is based on rationalizing both practical and academic implication of the subject. These perspectives are both discussed in this thesis. It can be noted, that the significance is remarkable since multiple times author faces the fact that the research field is both narrow and splattered, as well as the importance of understanding the subject to properly be able to construct useful tools for businesses. Finally, rhetoric refers to a structure that is supporting the review by being precise and comprehensible. This thesis can be seen as a well-developed and complete wholesome, that is properly justified, analyzed and presented. The research is answering the set research questions, following a clear structure, and finally making conclusions supported by rather wide implications.

Based on the evaluation presented above the overall trustworthiness of this study is good. The current study can be repeated, and the results of it used as a commencement point for further studies. However, there always exist the possibility of misinterpretation and unintentional omissions. Even though the whole research was conducted with the objective to produce coherent and trustworthy results, they are just one justifiable interpretation of reality. As mentioned in this thesis, failure can be seen very differently depending on the point of view and culture.

3 DEFINITION OF KEY TERMINOLOGY

To properly study the subject of this thesis, the basis of it must be set as precisely and steadily as possible. This means defining the key terminology, understanding the phenomenon's common terms and agree on the overall picture of it. In this chapter, the main focus is on terminology, outline of the phenomenon's process and setting a base for the thesis' structure.

3.1.1 *Definition of failure*

It is important to define failure as carefully and accurately as possible. As Cardon et al. (2011) stated empirical study on failure as a phenomenon has been scarce probably at least partly due to unclear definitions of what failure is. Definitions of business failure vary also in terms of their inclusivity from broad (discontinuity of ownership) to less permissive, (discontinuity of the business) and all the way to narrow (bankruptcy) definitions (Ucbasaran et al. 2013).

Defining failure can be surprisingly challenging since it depends for instance on the point of view: for owner-manager a decision to sell the company might be financially good, even though for the company it means ceasing to exist. Another challenge is the limitations of data, since research models are usually not able to identify "successful closures" as a possible outcome and, hence, statistics may present distorted odds for success (Headd 2003). This matter will be discussed later in this thesis.

As Stokes and Blackburn (2002) and Jackson et al. (2005) note, use of numerous terms related to business closures is problematic since the different definitions of are easily confused and often overlapping. Terms that are used to describe business closure include *exit*, *failure*, *closure*, *divestment* and *de-internationalization*. The two latter ones are especially related to international activity. Coad (2014) even suggests that *death* is the appropriate term to describe business exit. In addition, *crisis* can also be seen a minor problem or challenge of a company, that might evolve into a complete closure. Next, the author is going through some commonly used definitions of these terms and finally, conclude to a definition used in this thesis.

Firstly, Watson and Everett (1996) state that earlier researchers have not distinguished business closures from business failures. **Closure** has been determined as the inability to survive and thus represents a discontinuance of the business (Hall 1995). Cope (2011) continued by stating that closure should not be conflated with failure, since it may involve voluntary termination of a venture for reasons such as retirement or more interesting entrepreneurial ventures. In other words, firms could have been successful but closed for

other reasons. Burt et al. (2003) continues that for example in retail business the company may continue international trade with a reduced intensity of distribution.

Watson and Everett (1996) noticed that **failure** have multiple definitions/categories (see Figure 4) – one being the abovementioned discontinuance of the business. Others are change in ownership, filing to bankruptcy, closing to limit losses, failing to reach financial goals or ceasing to exit. This categorization is useful since it justifies the use of *failure* as the central term in this thesis – different synonyms of failure fit to this categorization.

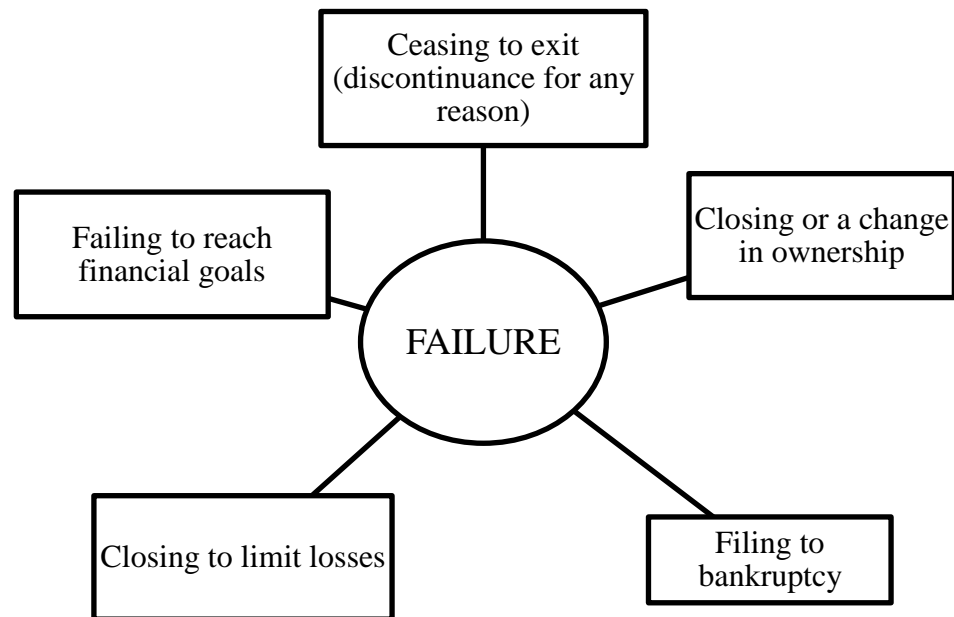


Figure 4 Failure categories (based on Watson & Everett 1996)

One way to define failure is to compare it to its opposite: success. Jennings and Beaver (1997, 68) define success as “*the sustained satisfaction of principal stakeholder aspirations*”, and logically continue by defining failure as “*the inability to satisfy principal stakeholder aspirations*”. Burt et al. (2003) define failure as an unexpected under-performance that results in operational losses in one or more of the business units in foreign markets. Cope (2011) emphasizes the role of stakeholders and set goals by summarizing failure as a business termination due to falling short of its goals and thereby failing to satisfy principal stakeholder expectations. Likewise, Ucbasaran et al. (2012) defined failure as “*the cessation of involvement in a venture because it has not met a minimum threshold for economic viability as stipulated by the entrepreneur*”.

According to Siegfried and Evans (1994) **exit** refers to the exit of the firm from a particular market or ceasing to produce a certain product. Decker and Mellewigt (2007) continue by proposing that exit might include any of the following: market exit (also referred to as strategic business exit or corporate restructuring), technological exit, or firm

exit (closure of entire firm). International exit is defined by Burt et al. (2003) as a total withdrawal of an organization from an operational presence in a foreign market.

On the other hand, entrepreneurial exit is defined as the process where the founders of privately held firms leave the firm and thereby remove themselves from the primary ownership and decision-making structure of the firm (DeTienne 2010). This type of exit is not in our central interest, even though in some cases entrepreneurial exit occurs due to failure. Our interest is mainly in firm exits and somewhat in market exits, since they include e.g. exiting from overseas.

For his part, Crick (2004) emphasized that all **withdrawals** (synonym for market exit) are not necessarily failures, since occasionally focusing to the home market for strategic reasons can be more beneficial than pursuing foreign activities. This is, once again, about point of view: the company have failed in international actions *but* continues to be successful otherwise. Crick (2004) also states that failure is, however, an accurate term when withdrawal occurs due to inadequate preparation and information gathering.

De-internationalization was determined by Benito and Welch (1997) as actions that lower organization's engagement in or exposure to existing foreign activities. If the organization withdraws completely from international operations it is known as full or complete de-internationalization. When it occurs only partially it may arise in many forms: (1) reduction of operations in a given market or withdrawal from that market; (2) switching to operation requiring lower level of commitment; (3) sell-off or closure of foreign sales, service or manufacturing subsidiaries; (4) reduction of ownership stake in a foreign venture; or (5) seizure by local authorities of assets owned by a foreign company. As Benito & Welch (1997) state, de-internationalization has been an issue in several fields, especially the focus has been on withdrawal situations such as foreign subsidiary divestment.

Divestment stands for the action when a company closes or sells-off unit(s) in foreign locations, i.e. company divests from it (Benito 2005). In their research, Benito and Welch (1997) noted that divestments can be seen as adjustments, failures or as a result of re-structuring. Adjustment driven divestments are usually small and gradual, such as selling-off a unit or outsourcing some activity. Failure driven divestments involves closure of a certain unit, but usually without consequences beyond the actual case. Thirdly, divestments due to re-structuring usually require well-organized strategic actions with remarkable consequences for the corporate network. They involve multiple units performing different actions in several locations but occur only seldom due to the sheer magnitude and depth of the processes. In every case however, the company has failed to maintain a successful unit, and it is a much-needed action for the company to divest as the profitability may rise after divesting the failing unit (Benito 2005).

Burt et al. (2003) defined divestment as a process of resource reallocation that reduces activity level in a foreign market and possibly entailing later exit. In other words,

compared to others Burt et al. emphasize divestment to be a process instead of a particular action, and underlines the importance of resources as the driving force. From these definitions, we can conclude that divestment can be interpreted as a synonym for market exit and withdrawal. From unit's perspective, divestment is a complete failure, whereas for the company it usually has a positive effect.

Coad (2014) suggests a different conceptual framework for business survival and business death. Coad criticizes the concept of business failure and suggests that **death** is a proper term to describe business exit. He argues that a firm characterized as failure is easily viewed as a failure for the whole of its previous existence, while death is seen more as "it was good while it lasted". Coad gives as an example Kongō Gumi which was founded in 578 and used to be the world's oldest continuously ongoing independent company before it went into liquidation in 2006. It is clear, that a company existing for 1400 years is hardly a failure.

In Table 3, Coad describes different paths for businesses, and how these are divided between survival and death. The table is relevant not only to explain survival vs. death, but to largely understand how failure is or should be seen, and the problematic issues behind the terminology and failure statistics.

Table 3 A conceptual diagram on business outcomes (Coad 2014, 722)

	Entrepreneurial continuation		Business continuation	
Business Survival	Entrepreneurial exit (e.g. Initial public offering, merger, acquisition)		Harvest Sale	
			Distress Sale	
Business Death	Voluntary Death	Relatively unviable	Liquidation	Harvest (e.g. Retirement, desired career change)
				Distress
Business Death	Involuntary Death	Absolutely unviable	Bankruptcy	

He begins with describing business survival to be the case where business continues to exist as it is, or as a situation called entrepreneurial exit. This means business continues operating with new management or investors – which should not be interpreted as “all exits are failures”, since it is neither a failure nor a business exit. As was mentioned before, business failure statistics present problematic information concerning business failures, since although e.g. change of legal form may include a death and rebirth that are recorded to statistics databases, they are not meaningful deaths nor rebirths.

On the other hand, exiting businesses differ based on the final decision being voluntary or involuntary. In the worst case, the business is forcefully closed by the bank or other creditors, but in some cases, the business is voluntarily closed – business is failing in economic responsibilities even if it is generating enough revenue to cover own costs.

Coad notices a problem behind the categorization of voluntary and involuntary deaths. Firstly, self-reported evaluation of deaths by the entrepreneurs are likely to be strongly affected by cognitive bias, since they paint themselves in a positive way to protect their self-esteem. Secondly, many exits that are classified as voluntary deaths, would actually be involuntary a little later in time. This kind of exit is neither a clear case of success nor failure. It is safe to say, that self-reported data is risky and should be treated with caution. As Coad is suspicious of the statistics giving a too positive outcome of failure, Headd (2002) argues that these statistics may present too daunting odds for business success. Whichever is the truth, it is safe to say, that there is obviously a challenge in how statistics concerning business success/failure is collected and, thus all these statistics must not be analyzed without criticism.

Finally, Coad however notes that the word failure will continue to be used mainly because it is convenient and widely understood. This is another reason why in this thesis failure is used as the core term, even though Coad and other scholars offer excellent criticism towards it.

Crisis can be seen as a minor failure – a problem or a challenge that a business faces and is temporary. Kovoov-Misra et al. (2000) refers that it refers to an event that threatens the survival and goals of a business or other organization. The crisis is the pre-phase before the complete failure, or only a temporary phase after which the business is able to continue to exist. The literature also describes crises as the result of a combination of managerial issues (Mitroff et al. 1987) and the absence of appropriate coordination among human, organizational, technological and external structures (Antonacopoulou & Sheaffer 2014).

Based on these results, in this research failure is examined as termination of a business (or a unit) due to its inability to reach goals for whatever reason, and thereby failing to satisfy stakeholder expectations. It is a set of actions and consequences that can be attached to de-internationalization, exit, divestment and withdrawal, and resulting the organization to cease activity in some extent or completely. To be clear, it must be noted

that exit, withdrawal and closure are not always case of failure or due to failure, since there might be other reasons behind them.

3.1.2 Failure process

To completely understand failure as a phenomenon, it is not sufficient to study definitions of the core term and its synonyms. Breaking the phenomenon into pieces and seeing it as a process, is a relevant step in deeper understanding.

According to Pauwels and Matthyssens (1999), during 1970-80s scholars were not able to properly explain retraction phenomenon (i.e. international withdrawal) by using the existing internationalization theories. Different stages models of internationalization emphasized predetermined nature of a stepwise international expansion instead of a more dynamic approach. Welch and Luostarinen (1988) called for development of an holistic process theory that would build on the foundations of the Scandinavian internationalization process theory ('Uppsala model', Johanson & Vahlne 1977) and introduce the concept of de-internationalization. Ever since the de-internationalization process has been only vaguely determined probably mainly due to its complexity.

Some researchers have explicitly analyzed failure as a process. One of the oldest process descriptions is Argenti's (1976) model, which relates non-financial causes with financial indicators within three different failure processes. The first trajectory is typical for a start-up company with inappropriate management in terms of skills and personality. The second is typical for young firms who have had steep growth and a sharp decline. This is also caused by managerial issues: operational and financial management are ignored during the growth phase. Finally, the third trajectory is applicable for mature and inert companies, that lose touch with their customers, and goes bankrupt because not being able to adequately respond to environmental changes. This model is however criticized by Ooghe and De Prijcker (2008) due to two reasons: firstly, the fact that 'financial health' is not based on financial indicators, and secondly, the existence of specific errors in different failure paths and within distinctive phases is not clear.

Also, Sharma and Mahajan (1980) have described failure process (Figure 5) to systematically study business failures. In their model, ineffective or poor management usually leads to mistakes in the planning and implementation, which causes decline in performance indicators. This decline can also be due to unpredicted events. Finally, the poor performance indicators might lead to failure, if no corrective action is taken or those attempts fail.

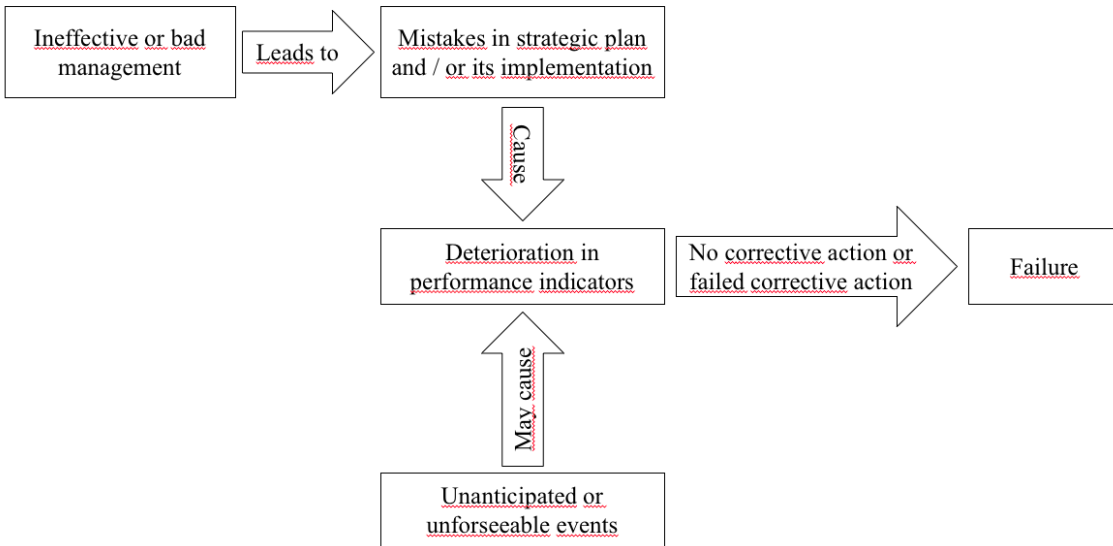


Figure 5 Failure Process (Sharma & Mahajan 1980)

Mitroff et al. (1987) formed a matrix to different corporate crisis presented in Figure 6. Firstly, corporate crisis may arise within the organization or from outside of it, and the warning signals for both off these types of crises are different. Secondly, arising crises can be divided to the ones caused by technological/economic breakdown and those caused by organizational/social breakdowns.

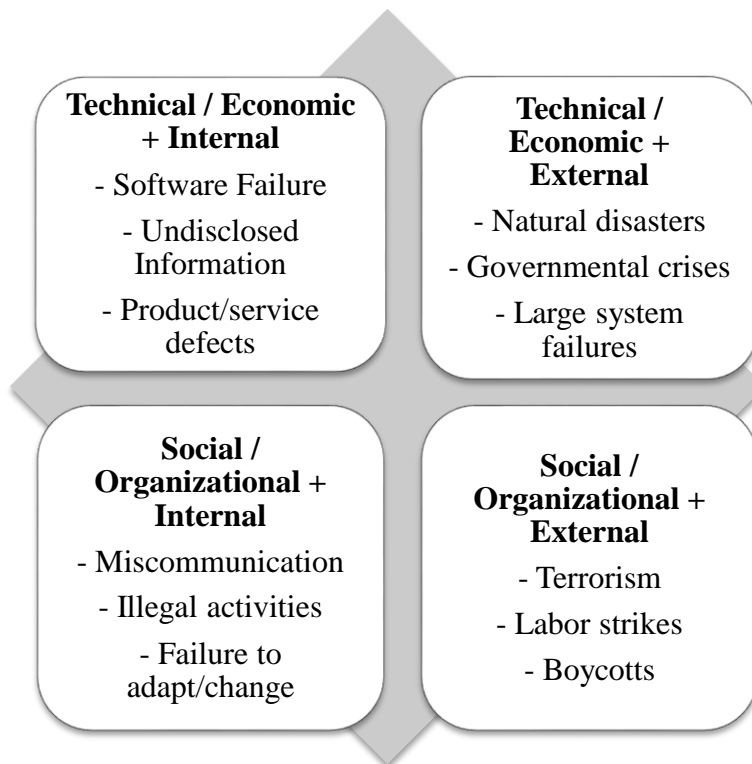


Figure 6 Types of Corporate Crises (Mitroff et al. 1987)

Ooghe and De Prijcker (2008) formed in their research four types of failure processes (Appendix 1): an unsuccessful start-up, an ambitious growth company, a dazzled growth company, and an apathetic established company. Later on, Roepga (2011) added excessive internal consumption as the fifth type – in this thesis this will not be included, however. These failure paths have three phases:

- 1) initial shortcomings from the foundation of a latter failure,
- 2) problems in terms of capital expenditures, sales or expenses (symptoms of a corporate policy that falls short due to those initial shortcomings)
- 3) overview of financial problems related to the previous phases

There are notable similarities in terms of occurrence of financial signs of distress between the four processes. However, the speed at which the signals succeed each other and management's reaction towards the signals differ significantly. In addition, the initial shortcomings (Phase 1) in processes differ most considerably. What is common with Ooghe and De Prijcker's models and Sharma and Mahajan's model, is the impact that management has on company's success/failure. The different factors leading to failure are studied more thoroughly in the following chapters.

As well as Mitroff et al. (1987) divided crisis to the ones coming from outside and those arising inside the organizational, also Cardon et al. (2011) state the success of any business organization is a result of the interaction of two major sets of factors: 1) environmental or external conditions (the factors emanating from outside the business itself), and 2) individual or internal factors (organization's ability to use its resources to adapt to and take advantage of the constantly changing environment). Some scholars suggest that organizations fail through neither fault of the entrepreneur nor management, but due to external factors. For example, Carter and Wilton (2006) suggest that ventures fail when governments do not create an appropriate financial, legal, political and economic environment that support business development. They concluded from earlier studies that a conducive environment for enterprises include favorable policies on taxation and calculation, reduction of interest rates, relaxation of company registration, facilitation of foreign companies' investments in the country, usage of affirmative action to promote local companies, and availability of financial support for enterprises and export incentives. It seems that the external factors and their impact to business failure are understated in Sharma and Mahajan's framework.

Crick (2004) suggests that failure is an accurate term in a situation where a firm fails due to poor preparation in planning and information gathering. Organization has also several responsibilities in terms of producing satisfying results. It must achieve certain market results, fulfill the performance expectations of the owners and finally, the expectations of other stakeholders, such as employees and suppliers. If it is unable to meet any or some of these responsibilities (e.g. Jennings & Beaver 1997; Cope 2011; Ucbasaran 2012) the likelihood of failure is higher. The impact of actions made in

advance, and the formulation and execution of strategic market plans are vital steps in fulfilling the mentioned responsibilities, and thus are more emphasized in the framework of Sharma and Mahajan.

From international point of view, in a situation where an organization has more established international operations, external forces (e.g. changed foreign market conditions, foreign government action) are often the key triggering forces in causing management to examine the international involvement of the organization (Benito & Welch 1997). The type of response in such situations depends on how management views the reverses, and occasionally this leads to failure of some extent. However, if the management is highly committed and international operations critical to the survival, complete withdrawal could be nearly inconceivable, i.e. complete failure is not allowed and must be avoided in any possible way.

3.1.3 Causes of failure

Now that we have we have a stronger understanding on the failure process, it is crucial to understand the factors causing failure and that way build the base for the analysis chapters of this thesis. In the previous chapter, we already noted that the success of an organization is a result of external and internal conditions. Governmental factors, legislation, poor planning and other reasons are already recognized to have an impact of some extent to organization's ability to survive. However, there are plenty of other reasons and causes of failure, and quite often it is challenging to separate just one reason. In this chapter, the author describes a categorization of causes of failure to build a base for the thesis.

Crick (2002) researched differences between the factors affecting discontinuing exporting in disinterested firms and disappointed firms. In this case both types of firms have exported in the past but are not currently engaged – disinterested ones do not plan to export in the future, and disappointed firms plan on doing so in the future. He found that for disinterested firms the most affecting factors in discontinuing exporting are: untrained export staff, lack of managerial personnel/time, difficulty obtaining adequate representation abroad, high risk/costs of selling abroad and language/communication problems. For disappointed firms the factors are unfavorable exchange rate, inability to offer competitive prices abroad, high transport/shipping costs, difficult/slow collection of payments abroad and restrictions imposed by foreign regulations. We are able to notice that reasons differ significantly depending on the type of firm.

Mellahi et al. (2002) summarized based on earlier literature that causes of organizational failure can be examined from at least two different viewpoints. In the Industrial Organization (IO) perspective failures are caused by external environment, which is why failure does not imply problems in effectiveness or efficiency of

management. In contrary, the Organizational Studies (OS), emphasizes the internal factors – failure occurs due to management’s lack of vision, will and ability to act effectively and make adjustments to avoid failure. As Mellahi et al. (2002) note that most successful organizations of the past may become the most vulnerable to fail in the future, as they become conditioned to exploit their old advantages and less likely to explore new ones. In other words, failure is linked to internal inadequacies in dealing with external threats. This division to perspectives is well in line with the findings of Mitroff et al. (1987) and Cardon et al. (2011).

Based on Mellahi et al. (2002), Burt et al. (2003) listed some possible causes of corporate failure dividing them into two based on the abovementioned IO and OS categorization:

- Industrial Organization (IO) perspective:
 - Turbulence in specific market
 - Long-term decline in demand
 - Competition increase (new entrants)
 - Natural decline of market / business
 - Strong unexpected shocks to general market
 - Product / process innovation leading to obsolescence
 - Public policy and other interventions
- Organizational Studies (OS) perspective
 - Commitment to pre-existing activities
 - Lack of perception of, and congruence with the market
 - Dismissal of new threats to the business
 - Management incapacity or incapability
 - Paralysis of decision-making
 - Structural obstacles to change

This division is, however, not mutually exclusive nor static. Changes in external market may be misread due to internal problems – which is an even greater risk especially in international markets.

Both IO and OS orientations have to be integrated in the study of failure, even though combining these two approaches might be challenging. Levine (1978) created a typology of causes of decline and it combines different factors presented in Table 4.

Table 4 The Causes of Decline (Levine 1978)

	Internal	External
Political	Political Vulnerability	Problem Depletion
Economic/Technical	Organizational Atrophy	Environmental Entropy

Mellahi et al. (2002) interpreted Levine's typology and opened the different causes in following matter: political vulnerability – liability of newness; problem depletion as in loss of legitimacy; organizational atrophy that is based on the 'success breeds failure' logic; environmental entropy – a reduction in the capacity of environmental support to the organization. Unlike Levine, Mellahi et al. argued that problem depletion (loss of legitimacy) is generally seen as an internal factor.

To thoroughly understand different factors affecting failure of businesses, it is beneficial to try to categorize them even further than above. Figure 7, by Ooghe and Waeyaert (2004), illustrates the different causes of failure, categorize them and stresses the mutual relations between them. First, general environment groups external factors that affect manager's motivation, the usefulness of their skills and corporate policy. The immediate environment forms a second group of causes, that also affects management and corporate policy. Thirdly, the characteristics of management or the entrepreneur, and fourthly, the company's corporate policy have a more important effect on performance (Boeker 1997; McGahan & Porter 1997) and are for that reason displayed in the center of the model. Management sets up corporate policy, and errors in it can quickly lead to bankruptcy. A lack of skills and personal characteristics may precede unanticipated problems in the policy, and thus lead to catastrophic results. Finally, company characteristics must also be considered. To give an example: young businesses must build external legitimacy and stable relationships with stakeholders and thus, are more vulnerable (Fichman & Levinthal 1991).

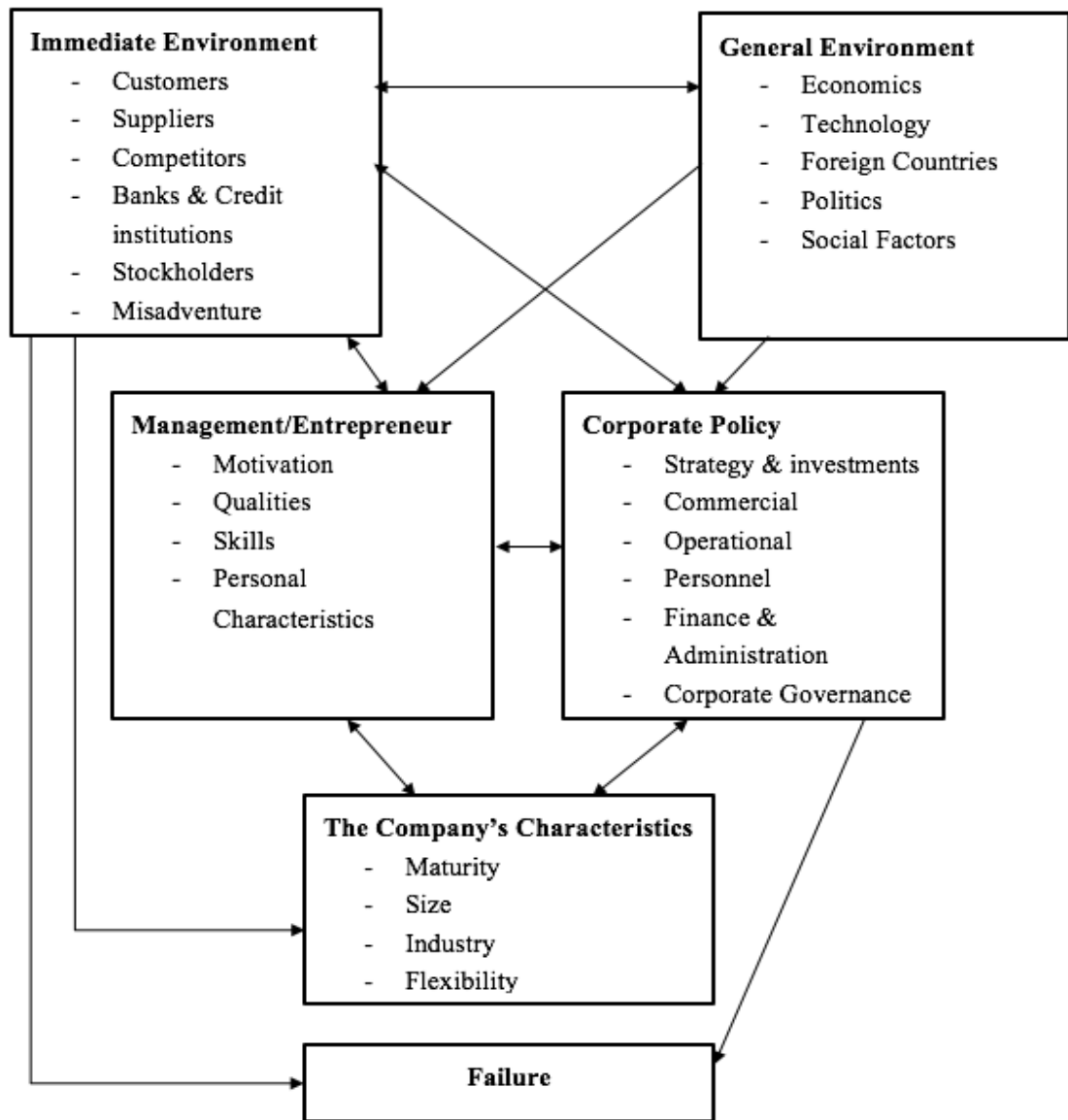


Figure 7 Failure model of bankruptcy causes (Ooghe & Waeyaert 2004, 374)

The content of the figure is used as the base of this thesis' perspective division and thematic range.

4 PERSPECTIVES ON FAILURE IN INTERNATIONAL BUSINESS AND ENTREPRENEURSHIP

After thoroughly defining the key terminology of the thesis, in this chapter the concept is analyzed based on three perspectives to the subject: environmental, organizational and individual. These perspectives include themes, such as finance, strategy and learning, and are chosen based on earlier studies in international business and entrepreneurship. The themes and division is based on similar ones from Hamilton and Chow (1993), Benito and Welch (1997), and Decker and Mellewigt (2007). As explained before, the goal is to get a proper yet rightly limited understanding of failure in international business and entrepreneurship from different relevant perspectives.

Based on earlier studies Hamilton and Chow (1993) tested and identified the relative importance of the factors and motives which led to the divestment in 1985–1990 in large companies from New Zealand. They categorized the factors in to three sections: 1) environmental influences, 2) organizational characteristics, and 3) financial performance. Decker and Mellewigt (2007) researched the antecedents of business exit and distinguished them into four categories: 1) performance, 2) strategy, 3) governance, and 4) environment.

At the same time there exists some biases, liabilities and misconception in the academic research on failure and its causes. The misconceptions (i.e. difficulties concerning the terminology) were already studied in chapter 3. When it comes to biases and liabilities, e.g. Cope (2011) finds that although failure is a definite feature of entrepreneurial life, entrepreneurship theory often reflects an *antifailure bias*, and there remains also a major focus on *liability of newness*. Antifailure bias stands for the primary objective of avoiding failure by all means, which might blur the management's decision making, distort statistics concerning failures, and in academic research it might occur as seeing failures as learning experiences or successful opportunities and hence as denial of failure (McGrath 1999; Coad 2013). On the other hand, liability of newness stands for the greater risk of failure new organizations have compared to older ones, because they are dependent on the cooperation of strangers, have low level of legitimacy, and are unable to compete effectively against established organizations (Freeman et al. 1983). This liability may, again, cause some confusion in statistics and thus, give a too positive or too negative idea of the current environment. Finally, Stokes and Blackburn (2002) argue that the whole over focus in failure research on cause and prevention is diverting attention away from other, or even more, significant areas of inquiry, such as the learning dynamics of failure, that will also be studied in this thesis.

4.1 Environment

De-internationalization could be regarded as a rational response to changed market or competitive conditions. Simply put, action will be taken whenever achieved or expected profits are less than the minimum acceptable profit level over a certain period (Benito & Welch 1997). However, unsatisfactory profit levels do not necessarily lead to withdrawal. Usually, there are multiple courses of action available for companies, e.g. firms may attempt to deal with the unsatisfactory profit levels by different actions such as reducing costs or by achieving larger sales volume.

Van Witteloostujin (1998) studies industrial organization (IO) and behavior-rooted organization studies (OS) attempting to bridge their contributions in the theory of strategy, especially concerning economic downturn of businesses. He used a schematic time-performance profile of a firm (Figure 8) to better understand the four possible outcomes of the process of decreasing performance over a prolonged period of time.

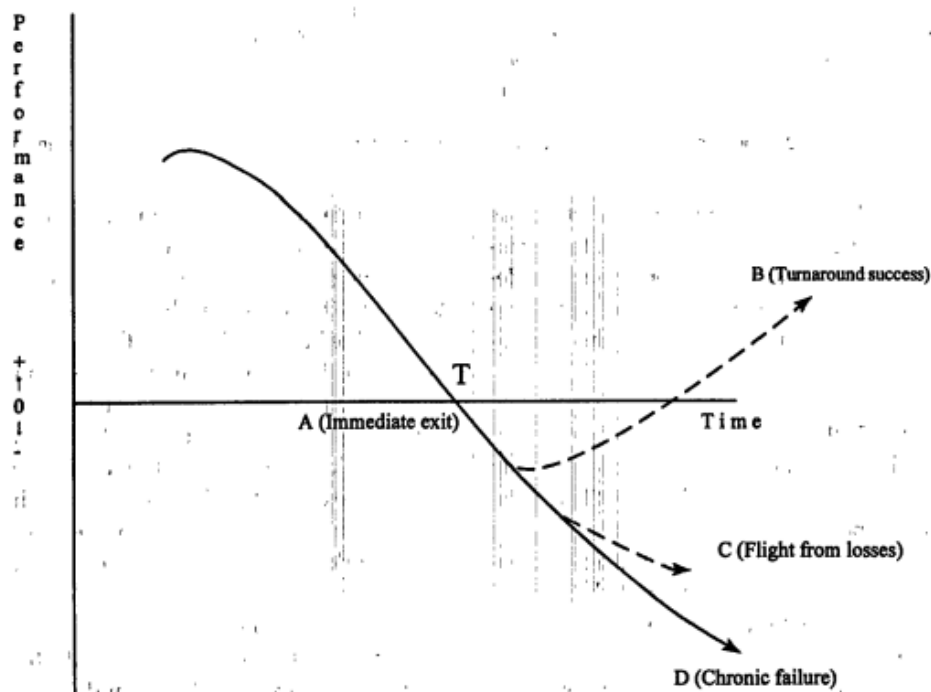


Figure 8 Time-performance profile (van Witteloostujin 1998)

Outcome A stands for immediate exit: as soon as profitability falls below zero, the firm decides to exit. As a failure, we could call it safe or quick failure, where there is no risk of further financial losses. B stands for turnaround success: the business successfully moves from negative to positive profitability. In this case, failure was only temporary or did not even occur at all. C is flight from losses: after a period of losses, the firm finally leaves the market. It could be described as a slow failure – business was not able to avoid

failure, and compared to immediate exit, it most likely invested now wasted resources to it. Finally, D is chronic failure: although profit remains negative, the firm stays in the market. This situation is difficult to describe as anything else but complete failure, since the sunk costs keep growing. This might occur when the entrepreneur's escalated commitment to a losing course of action delays failure or when a business has too strong exit barriers. (van Witteloostuijn 1998.)

As the author mentioned before unsatisfactory profit levels do not necessarily lead to exit actions, due to sunk costs that might seem from economic perspective as irrational barrier to exit but in reality, they function as perceptual exit barriers (Siegfried & Evans 1994). From economic viewpoint, it only makes sense to exit business if the assets freed by it will earn more elsewhere, i.e. while a business may be earning a very low return on its book investment, it might not be reasonable to exit (Porter 1976).

When it comes to the reasons underlying the divestment option, Hamilton & Chow (1993) tested different factors and their relative importance in divesting firms and found that general economic environment and industry growth are seen as the most relevant factors. Further on, according to Siegfried and Evans (1994), the decision to exit from an operation is a function of incentives to exit and impediments to exit. They also found that the most apparent incentives to exit are low profits and unprofitability, which are usually due to high costs, permanent decreases in demand or more efficient new competitors. Benito and Welch (1997) summarized numerous factors that may lead to unsatisfactory profit levels and thus to exit. These factors are the same as the ones of Siegfried and Evans:

- deterioration of relative cost conditions due to e.g. price inflation
- falling prices due to e.g. increased competition
- reduced demand due to e.g. unfavorable economic conditions in the host country

Ooghe and De Prijcker (2008) studied different failure processes for four different type of companies in their general environment and suggested economic factors that seem to cause bankruptcies. For start-ups recession in the industry seem to be dangerous in some cases, whereas for ambitious growth companies and dazzled growth companies weak stock markets are threatening. For apathetic established companies, there seem to not be clear economic factors causing bankruptcy, except in international activities, where economic changes in foreign countries might endanger the continuation. The failure processes of these four different types of companies are shown in appendix 1.

As was mentioned before in this Figure 4, the matrix formed by Mitroff et al. (1987), external factors are one major cause of organizational crisis and thus, a factor behind failures. Boddawyn (1979) underlined that evaluation of economic, political, social and cultural conditions at home and abroad should be frequently analyzed. Risks and opportunities shift from country to country, and many worldwide and regional developments are threatening the stability of business environments. Newspapers and

news broadcasts are full of stories from all over the world in which different set of factors are causing unstable conditions for both individuals and organizations to live and act in. Decline in demand forces for any reason forces organizations to divest products or units and is often caused by such factors that are beyond the control of the decision-makers in the organization. Most organizations try to harvest or milk their products or from their units as much as possible, but eventually, once products enter the decline stage, most organizations reduce expenditures and withdraw eventually from the market. (Karakaya 2000.)

In addition, changes in customer tastes, psychographics and demographics may result in market decline for certain product or service types (Karakaya 2000) and thus, force organizations to enter the decline stage. For example, the current environment where even greater part of global population is over 60 years old and the birth rates are declining especially in Western countries, it is clear that it has an influence on the offerings of many organizations.

When defining or describing business failure, quite often first thing to come in mind is bankruptcy, and the literature of it reveals already numerous prediction models. According to Ooghe & De Prijcker (2008), however, they are not based on the fundamental causes of failure, but rather on financial symptoms. Nevertheless, financial point of view is crucial to get a proper overall understanding of failure. One of the main reasons for market exit (i.e. market failure) is competition. Organizations that are not able to compete with their rivals eventually go out of business or exit. Most companies use price as the main competitive weapon, and because of price wars, companies are forced to lower their market share and eventually exit. (Karakaya 2000.) It is obvious that financial decisions, especially concerning the prices and cost structures are central in entry and exit decisions, as well as in day-to-day business to avoid failures.

There are scholars who have described failures purely based on financial issues. Bibeault (1999) describes failure as a situation where the realized rate of return on invested capital is significantly and continually lower than prevailing rates on similar investments. He also noted that economic failure is rather subjective, since a company can be an economic failure for years, but still be able to meet its obligations and thus not be a legal failure (i.e. ceasing to exist in a legislative manner). Another definition is by Shepherd (2003, 318): “*Business failure occurs when a fall in revenues and/or a rise in expenses are of such a magnitude that the firm becomes insolvent and is unable to attract new debt or equity funding; consequently, it cannot continue to operate under current ownership and management.*” Both definitions are in line with the definition of the one used in this thesis, with a stronger emphasis on finance.

For both academic research and practitioners Business Failure Prediction (BFP) is an appealing subject as it attempts to estimate the probability of failure using a set of measures, such as financial ratios as well as market-related and non-financial variables.

However, the usefulness of ratio-based BFP models in providing accurate predictions has been questioned several times, as Bunyaminu & Bashiru (2014) note. They also conclude that several attempts have been made to develop a model that uses both financial and non-financial variables, but these efforts have usually stumbled on tremendous challenges. In this chapter, the focus is to go through some commonly agreed studies and statement concerning financial variables as part of failure decision-making and failure process from the point of view of the company.

Whether or not BFP models are useful or practical in use, economic factors definitely, predominate when it comes to explaining divestment in particular. It may be attributed to prolonged poor performance of a division or subsidiary without improvement in sight; inability to sustain further losses or lack of capital to finance investments or expansions necessary to survive. The financial factors behind failures and divestments have been studied relatively intensively probably since they are more concrete and easier to interpret than “soft factors” such as strategic and managerial factors that are usually strongly related to human activities and human resources. Some of central studies concerning financial factors are presented in the following.

Hamilton and Chow (1993) tested multiple indicators concerning financial performance, as factors underlying the divestment option and found that low return of unit divested and low return revenue growth of unit divested were most relevant. They also suggest that the most relevant underlying factors for divestment from financial point of view are shortages of capital and capital investment requirements. Decker and Mellewig (2007) lists unmet expectations regarding sales or profit, market share, and disappointing demand and profit growth rates as well as relatively low size of a unit as key indicators of divestment. There are also studies (e.g. Hamilton & Chow 1993) suggesting that corporate level financial performance influences divestment of units, e.g. meeting corporate-level liquidity requirements, is one of the most important objectives motivating divestment.

Benito (2005) notes that financial studies on divestment have been paying special attention to the impact of divestment on company performance. At a minimum, failure imposes a financial cost on the company (or entrepreneur) in the form of a loss of or reduction in (personal) income. In the end, however, Markides (1995) argues that divestments can increase the market value of a company, which may reflect divestment demands imposed by financial markets (Benito 2005). Again, we can notice that divestment is not always necessarily a negative failure, but a required action to keep a company's finances balanced.

For the company's profitability and its ability to focus on the core competencies, it is reasonable to divest a poorly performing unit. However, as Benito (2005) states operations might be divested for other reasons than poor performance *per se*. Failed acquisition policies and diversification strategies seem to foster divestiture. The units that

were originally acquired to achieve synergies with the company's core business and their synergistic value may have dramatically weakened or completely disappeared over time. Additionally, in highly diversified companies a greater degree of relatedness between units might be needed. In such situations, divestment usually have a positive impact on the market value for the company, but cause failure for the unit. (Benito 2005.)

Decker and Mellewigt (2007) suggested that underperformance does not only determine the exit decision *per se* but also the type of exit chose. For example, Nixon et al. (2000) found that companies that are financially distressed usually use sell-off than spin-off as divestment method due to the urgent need of liquidity to meet short-term financial obligations.

Boddewyn (1979) raised financial issues as the most central factors behind foreign divestments but also pointed out that the importance of these issues should not be overemphasized because "*analyses of sales, costs, profits and losses, returns on investment, cash flows, debt-equity ratios, and the like*" (1979; 22) are frequently superficial, unsophisticated, and not grounded in hard data. A poor financial situation is only a necessary condition but not a sufficient one to generate divestment, according to Boddewyn.

4.2 Organization

Early contributions in strategic management looked at divestment from product life-cycle approach and argued that divestment is only one of several strategic options for declining industries. Divestment was suggested to be a suitable direction in 'end game' situation characterized by high volatility and uncertainty regarding future earnings. (Harrigan 1980.)

Divestment has also been viewed from corporate portfolio perspective. According to Hamilton and Chow (1993), a company is a portfolio of assets, products and activities, which should be constantly reviewed from financial and strategical viewpoints, and poorly performing units should be considered probable candidates for divestment. Boddewyn (1979), however, noted that portfolio view of foreign investments isn't always appropriate since multinationals are not ranking units and subsidiaries and abolish the bottom ones. The value of a particular investment or unit is usually difficult to precisely determine as they form a complex network on a multinational level. Thus, maintaining a seemingly unprofitable unit can be justified if it reduces the risk to the whole multinational or increases the yield to any part of it. (Boddewyn 1979.)

Hamilton and Chow (1993) found that the most relevant underlying factors for divestment from strategic point of view are high degree of diversification within the firm, shortages of management and organizational structure of the firm. On the other hand, van

Gelder et al. (2007) argue that owners pursuing a reacting, rather than long-term, planning strategy are more likely to fail.

When divesting from a business unit, size is also a matter that determines the exit decision. Already Freeman et al. (1983) pointed out the importance of liability of smallness – it affects both the decision to exit and the choice of exit style, i.e. sell-off or spin-off (Nixon et al. 2000). Some studies point out also the existence of liability of newness, which was already mentioned earlier in this thesis. It is suggested that the older a business unit, the less likely is exit (e.g. Freeman et al. 1983), while others suggest that this relation is far more complex (e.g. Amburgey et al. 1993; Chang & Singh 1999).

4.2.1 Focus on core activities vs. diversification

One key objective motivating divestment is to focus on core activities to increase company's profitability and market value (Hamilton & Chow 1993; Markides 1995). Benito (2005) suggest based on earlier empirical studies that firms are inclined to staying close to their specific competencies. It seems that expanding into related business areas leads to better performance and survival rates. This is why multi-industry companies (conglomerates) are probably not seen as tempting as they did in the past, e.g. during early decades of 20th century in the Western countries. Chang and Singh (1999) found that companies exit from units for which the marketing resource profiles are different from those for the rest of the company. However, selling off such businesses might be complicated due to the extent they share resources with other retained lines of business. From these business units, it is more likely for companies to exit via dissolution. The barriers to failure are studied more thoroughly in chapter 4.4.

Chang (1996) studied in a revolutionary matter entry and exit decisions as two necessary aspects of decisions concerning scope of the firm. He conducted a joint examination of the entry and exit decisions of organizations over time and was able to examine directions and processes of diversification and restructuring. According to Chang (1996), Christensen and Montgomery found already in 1981 that poorly performing firms tend to seek unrelated diversification since they may find opportunities in related fields to be limited.

Decisions concerning core and none-core activities is purely strategical: poor business performance or financial distress is, according to Decker and Mellewigt (2007), frequently a result of a failed diversification strategy. However, it must be noted, that from the company's point of view these divestments caused by failed diversification strategy, might not always be considered as complete failures but rather as a rationalized action for strategical and financial reasons. Still, from divested unit's own perspective it can be seen as a failure, if it ceases to exist.

4.2.2 *Entry modes*

According to Benito (2005), it was not until the begin of 21st century that research on foreign divestment began to appear. Before that studies focused on forced divestments (in the 1970s due to nationalization actions in developing countries) or were simply undertaken even though concerns were raised about the instability of cooperative ventures and the integration problems posed by international acquisitions. In the beginning of foreign divestment research, the focus was on relocation of manufacturing activities as a response to the rising cost disadvantages of developed economies, or the effects of political and institutional transformation in transition economies. Later, the divestment of retailing operations attracted attention due to the international failures of companies such as Marks and Spencer. (Benito 2005.)

The ultimate goal of entering is to upgrade organization's capabilities and to improve its performance. Organizations may prepare for changes in external environment that might have an effect to the future profitability. Poorly performing organizations have usually a bigger pressure for organizational search and selection compared to highly performing organizations. (Chang 1996) To roughly divide, we can distinguish two main approaches to search and selection activities: experimentation and know-how. According to Chang (1996), experimentation usually implies a certain failure-rate, since organization is unable to use its current stock of knowledge, and thus might become extremely costly to the organization. Hence, usefulness of already existing technology or know-how is key factor in the search of industries to enter. Therefore, it is safe to expect that organizations mainly enter industries where they can apply their existing knowledge. This is in line with Benito's (2005) suggestions mentioned earlier on organizations attempt in staying close to their core competencies.

When put into the international business perspective, based on earlier studies there seems to be some relatively consistent patterns regarding how certain characteristics of the entry mode to a foreign country may influence the fate of the foreign actions – whether they end up failing or not (Benito 2005). In current international business thinking a central principle is that there is no single international strategy (Harzing 2000). International business strategies can be divided into four basic categories: 1) multidomestic, 2) international, 3) global and 4) transnational. Harzing (2000) noted that even though international strategy was not included in Bartlett's original classification, it was later added to Bartlett & Ghoshal's classification. Later, it has been both included and left out in different studies due to difficulties in empirically distinguishing it from the others. The categorization and the main characteristics of each category are listed in Table 5.

Table 5 International business strategies (based on Harzing 2000)

<p>Multidomestic</p> <p>Focus on national differences</p> <p>Differentiating product offer to national differences (customer preferences, industry characteristics, government regulation)</p> <p>Individual national subsidiaries enjoy considerable decision-making autonomy & largely self-sufficient in terms of the resources</p>	<p>International</p> <p>Creating innovations at home and then exploiting them on foreign markets/world-wide basis</p> <p>Treating foreign markets in a one-by-one fashion</p> <p>Foreign subsidiaries used relatively late; mostly when entering markets where the scale of operations justify their use</p>
<p>Global</p> <p>Focus on achieving world-wide efficiency</p> <p>Centralized production and other value-generating activities</p> <p>Manufacture standardized products for sale around the world</p> <p>Corporation use overseas operations as delivery pipelines (sales, distribution)</p>	<p>Transnational</p> <p>Global efficiency, locally responsive, and exploiting and leveraging a learning potential in different national operations</p> <p>Double-edged approach; appealing in principle but extremely challenging to design and implement successfully</p> <p>Occurrence appears to be low</p>

According to Benito (2005), global organizations are remarkably often seen as the least desirable ones to enter local markets, which is why foreign companies should focus on melting into the local environment they operate in, to become “equivalent” to local ones. This is the underlying logic behind multidomestic strategies.

In this thesis, the interesting question is how the choice of international business strategy influence divestment, i.e. does the implemented strategy have an effect on failure. According to Benito (2005) in particular a transnational strategy may be more challenging to conduct due to its complexity. Any subsidiary of a company pursuing such a strategy may carry a higher divestment likelihood. Benito ranks subsidiaries regarding divestment probability $p(D)$ and suggests that baseline order is $\rho(D)S_{TS} > \rho(D)S_{GS} > \rho(D)S_{MS} \approx \rho(D)S_{IS}$, in which TS stands for transnational strategy, GS for global strategy, MS for multinational strategy and IS for international strategy (see Figure 9).

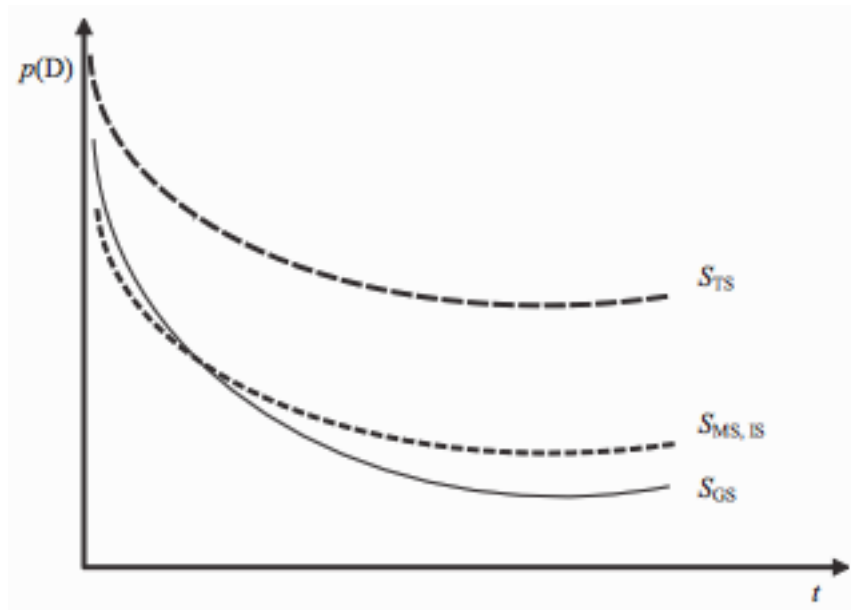


Figure 9 Likelihood of divestment of foreign subsidiaries (Benito 2005)

In other words, based on the equation presented, subsidiaries based on transnational strategy are most likely to fail, and subsidiaries based on multinational and international strategies less likely to fail. However, over time, it is probable that subsidiaries of global operators, S_{GS} , reach lowest divestment propensities if the operator has done the needed reorganization of operations and shake-out of subsidiaries. (Benito 2005.)

It must be noted that failure happens regardless of international strategies. The type of strategy might have a role in divestment propensities, but it is inconceivable that failures could be eliminated altogether by a certain strategy. Another relevant issue is the pre-investment and pre-internationalization phase, since according to Boddewyn (1979) bad performance itself often results from the fact that early divestments frequently follow investments (or acquisitions) that were made without a careful preliminary analysis.

Chang and Singh (1999) conducted a study on entry and exit modes and their relatedness. They found that decisions concerning these modes are shaped by different sets of factors. Entry mode decisions are affected by variables such as the product market relatedness, the human resource profile differences, and industry attractiveness, but did not explain the decision on exit mode. For instance, when companies are entering a business with a different resource profile, acquisition might be a more tempting option compare to internal development. If the firm enters a new market via acquisition and then starts to fail since it is not fitting with its core competence, it may be able to sell the business off more easily and thus, limit the possible expenses to the minimum. On the other hand, if firm has decided to enter by internal development and then starts to fail, it takes more time to decide on the mode of exit, and additional costs might become inevitable and thus, the failure would be a lot costlier. (Chang & Singh 1999.)

4.2.3 *Exit decision-making and exit modes*

Even if the author has set to use failure as the main term in this thesis, in this case the usage of exit as the key term is justified. As mentioned before and in this case particularly, exit refers to the exit of the business from a specific market, and in this case our main interest is a situation where a business decides to exit a market usually due to an occurred failure. Exit from international markets has been significantly less analyzed than internationalization as a phenomenon. According to Jackson et al. (2005), where exit from international markets is studied, most work has been done on motives and causes, and relatively little on processes. In this part of the thesis the main focus is on understanding decision-making behind exits and exit modes.

Matthyssens and Pauwels (2000) note in their study that studies concerning international market-exit decisions show contradictory information. Firstly, the timing of the exit decision seems to be conflicting: e.g. Hitt et al. (1997) argue that increasing transaction and coordination costs during internationalization results in market-exit decision to occur more likely in the later stages of the international expansion. On the other hand, according to Matthyssens and Pauwels (2000), Welch and Wiedersheim-Paul argue in their study from 1980 that exits are generally an early internationalization phenomenon caused by poor preparation and limited experience which is in line with the findings of Benito (2005) presented in Figure 9.

Secondly, Leonidou (1995) note that there are contradictions on the drivers of the international market exit too, since both internal and external forces are blamed for depending of the source. Leonidou (1995) concludes that there exists no consensus on the nature of the drivers of international venture withdrawal. This is in line with the findings in this thesis, since there seems to be no repeating pattern on different international failure nor exit processes.

Chang and Singh (1999) examined the choices of modes of entry and exit in the process of new business exploration. They found that decisions on exit modes are determined by a different set of factors than in the entry mode decision. For instance, differences in R&D and HR profiles were essential in exit decisions but not in the exit mode decisions. Furthermore, market share, business size, and industry attractiveness control variables were important predictors for the exit decision, but not for exit mode decision.

Already Porter (1976) found that the specificity of assets to a particular actor lowers their market or resale value. It is less likely to pay to sell off or shut down an unprofitable business and the larger the immediate loss the company will face if it shuts down the business. Chang and Singh (1999) researched whether age of a business unit have an impact on exit decision and/or exit mode decision and found that age does not affect the exit decision but does affect the exit mode decision. They suggest that an internally developed business is less likely to be sold than an acquired business. The first one is

more likely to be dissolved since it tends to build firm-specific idiosyncratic assets that limit its marketability at the time of exit. Such a business is typically older and tends to be highly integrated with other parts of the company and thus, more difficult to repackage for sale. The highly firm-specific assets make it nearly impossible to achieve a high sell-off price. Porter (1976) concluded that basically a company earning an unsatisfactorily low return has two alternatives exiting the unit (unless it is willing to cope with the low return): liquidating the assets or selling the business. Due to the specificity of the assets, the only likely buyers are those acting in a similar business. Durable and specific assets are for example specialized plant and equipment, inventory investment, distribution, receiving and transportation arrangements, intangible assets, and labor and management. (Porter 1976.)

Based on these findings from Porter (1976), and Chang and Singh (1999) there is a remarkable list of factors that have an effect on the exit decision and exit mode decision. Benito's (1997) attempt to group different factors behind divestment decision into four groups gives a solid conclusion on the subject:

- Stability and predictability of the environment (economically, socially, politically and competitively): a perceptual factor on the part of the management of the core firm
- The performance of the operations: in financial terms or in a broader context
- The strategic fit between parent company and foreign affiliate: strategies may become very different during time, which may cause tensions and failure
- Governance issues: ability of the parent organization to manage the operations in the foreign environment

These groups of factors can be incentives and/or barriers for an organization to exit.

Karakaya (2000) listed different ways for organizations to exit markets. The most common strategies are: phase out, sell out, harvest and immediate product elimination. He noted that especially selling out to another company had become a popular choice for many organizations as an exit mode.

Pauwels and Matthyssens (1999) managed in their study of four companies to distinguish six phases in the export withdrawal decision-making process: 1) initial and accumulating market commitment, 2) increasing stress, 3) two opposite reactions, 4) toward a stress threshold, 5) confrontation at the threshold, and 6) learning beyond withdrawal. Their model is shown in Figure 10 with the addition of the three motors: inhibitor, arbitrator and accelerator motors.

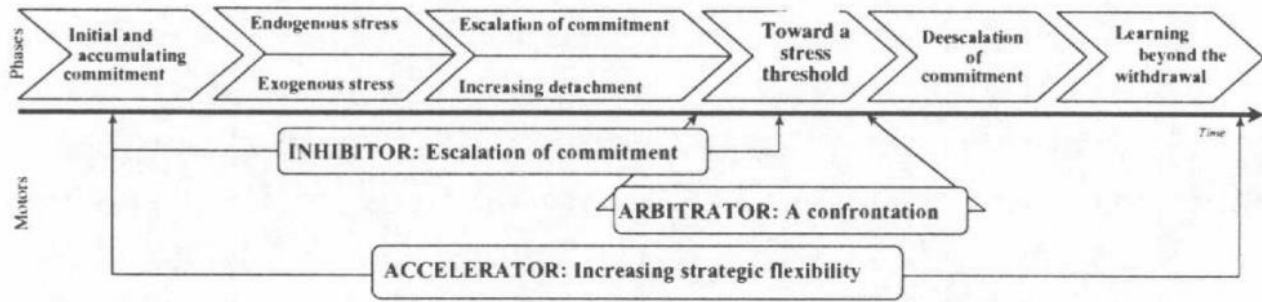


Figure 10 A Process Model of Export Withdrawal (Pauwels & Matthyssens 1999)

These three fundamental motors underlie the decision-making process. Motor is defined by Van de Ven and Poole (1995) as a basic process they serve as a building block for explaining change processes. In this case the motors serve accordingly: inhibition motor of increasing market commitment; acceleration motor of increasing strategic flexibility; and arbitrator motor that leads to the convergence of the previous two. (Pauwels & Matthyssens 1999)

4.3 Individual

As in the process of forward moving in international operations, in failures and de-internationalizations much depends on the attitude of management, the stage of internationalization, the extent and type of commitment to international operations (both resources and psychological) within the company and the preceding experience from international activity (Benito & Welch 1997). Some scholars have suggested that management is the major cause of bankruptcy (e.g. D'Aveni & MacMillan 1990; Greening & Johnson 1996; Ooghe & De Prijcker 2008) – inappropriate management qualities and skills are a threat to business survival and are therefore often linked to failures, especially in start-up context. This is highly supported by the organizational studies (OS) mentioned before, as it focuses to study how failure is a result of management's incapability, e.g. blinded perception by management to their weaknesses and strengths (Zajac & Bazerman 1991) as well as strategic paralysis (D'Aveni 1989; 1990), to name a few.

Success of an organization is a result of the interaction of two sets of factors: external and internal. From managerial point of view internal factors are in the center. Entrepreneurship literature suggests multiple capabilities or factors that seem to help entrepreneurs to avoid failure, or in contrary capabilities that are associated to failure more commonly. For example, Headd (2003) found out from statistics provided by BITS (the Business Information Tracking Series) and CBO (Characteristics of Business

Owners) that factors that seem to lead to closing, such as being young and having no start-up capital, are also prevalent among businesses that were successful at closing.

Managers and entrepreneurs often get their ideas about organizations from sources such as books and consultants, but also from other managers and organizations. They learn from the performance of other organizations by imitating successful actions and avoiding unsuccessful actions. Even though in some cases different types of benchmarking might have a positive outcome, it might also be risky or even a fatal mistake, since organizations may engage in behavior that is inefficient, but believed to be effective. Denrell (2003) argues that there is a tendency to focus on successful firms and individuals, and such sample bias lead to a situation where managers may not observe the practices of failed firms or individuals. Once again, management's responsibility is remarkable in decision-making, and in the worst-case scenario, it may make terrible choices by trusting biased information, and thus cause a failure of some extent. (Denrell 2003.)

When it comes to making the final decision on whether to continue or close the business, Benito & Welch (1997) noted that negative feedback from foreign markets does not usually come as a powerful shock, but more likely as a deterioration over time. Therefore, the decision to withdraw is much more difficult for the responsible management. However, Wright and Thompson (1987) noted that in highly diversified firms, divestments are facilitated since decisions are made by management which is geographically and/or emotionally distant. In addition, public opinion seems to be more negative if these decisions are made by foreign companies instead of local ones. It is even believed that local owners would not have made such divestment decisions (Benito 2005). Other way around, for management making the final call can be excruciating due to the pressure coming from local public.

According to Benito (2005) there have been multiple studies on whether the entry mode and cultural differences influence success in internationalization actions of a company. There seem to be some variation on whether joint ventures increase exit rates or not, where instead acquisitions seem to increase the exit rates. This is at least partly due to cultural challenges: both another corporate culture and a foreign national culture must be dealt with, and thus a managerial matter. It seems that problems are likely to increase when foreign investments are made in culturally distant locations, when there are few other foreign firms operating in the same country, and/or they are made by acquisition or joint venture. The cultural issues are definitely a managerial challenge that must be considered during a merger or acquisition. (Benito 2005.)

There might occur resistance to withdrawal not only within the company, but also outside of it, e.g. from trade unions or governments, and these forces can be powerful (Benito & Welch 1997). In addition, as mentioned above the way failures are seen varies between national cultures but also between subcultures:

“Where Silicon Valley exalts failure, Wall Street punishes it ruthlessly.” –Michael Lewis (Waldman 1999)

It seems that in entrepreneur-friendly environments failing is seen more as a normal phenomenon, compared to how non-entrepreneurs usually see failing as a negative issue.

The concept of failure sensemaking is central, since according to Cardon and McGrath (1999) it may also impact the attributions entrepreneurs make for difficulties they experience: whether they decide to continue to develop the business despite hardship or to cut their losses and close the business immediately – in other words fail. According to Cardon et al. (2011), the narratives that various stakeholders offer are the building bricks of socially constructed failure explanations and are based on sensemaking. They help individuals to control their own perceptions of themselves (Ibarra & Barbulescu 2010) as well as the external image and judgement of past actions (e.g. Lounsbury et al. 2001). Cardon et al. (2011) concluded that the narratives of entrepreneurs and different stakeholders vary from one another in form and content.

The narrative literature agrees that the different stories told by various actors tell usually adjust roughly to culturally prominent narrative types. This suggests that explanations for failure by different story tellers are restrained to multiple variations of limited range of narrative attributions (Mantere et al. 2013). Previous researches have been able to identify a number of generic narrative forms that are repeated across individual stories, and how certain of them are used in specific contexts (Lamberg & Pajunen 2005). For instance, Brown & Jones (1998) outline two common types that help actors to reject responsibility for failures: inevitability (fate) and conspiracy (destructive others).

4.3.1 *The impact of personal traits*

Decisions made by an organization’s management or the entrepreneurs have undoubtedly a major impact on organization’s success. The decision-making processes can be complex and multidimensional, but the personal traits of decision makers are definitely central to the outcome of the final decisions. The personal traits of management and entrepreneurs have been studied relatively widely and in this chapter the author will go through the most central findings to better understand which traits seem to be associated with organizational failures.

Already in 1979, Larson and Clute concluded that failed organizations share characteristics directly related to personal traits of management. Argenti (1976) identified personality-wise causes for failure to be impulsivity in decision making, inability to respond to change, too powerful manager, poorly informed management, and habit of taking unnecessary risks. Additionally, Maccoby (2000) argued that visionary managers

can be narcissistic and increase the risks when business conditions are changing. As they interpret advice and criticism from others as threats, they might isolate themselves and become myopic in their views. Hayward et al. (2005) argued that founders with greater hubris (socially constructed confidence, extreme overconfidence) are more likely to make resource allocation decisions that increase the likelihood of venture failure. According to van Gelder et al. (2007), a lower degree of human capital is also a common trait for failed business owners. Ooghe and De Prijcker (2008) highlights two noteworthy personal characteristics affecting performance: 1) inertia, that might lead to ignorance of opportunities and threats, and 2) optimism and risk seeking behavior, that may precede distress.

Ucbasaran et al. (2010) researched comparative optimism (i.e. over-optimism) amongst entrepreneurs. They described it as the tendency of people to report that they are less likely than others to experience negative events (such as failure), and more likely to experience positive events. They found that previous studies concerning optimism and entrepreneurship did not (at least sufficiently) take into account nature of previous experience, in addition to extent of entrepreneurial experience. By studying nearly 600 entrepreneurs in Great Britain they found out that sequential and portfolio entrepreneurs without failure experience were clearly more likely to report comparative optimism than newcomer entrepreneurs. On the other hand, sequential entrepreneurs with previous failure experience, were as likely as new entrepreneurs to report comparative optimism. Finally, portfolio entrepreneurs with failure experience were less likely to report comparative optimism than new ones. (Ucbasaran et al. 2010.) To summarize, it seems that previous experience (whether existing or none) does have an effect on the optimistic attitude of entrepreneur and thereby cause crisis or failure to occur.

Ooghe and De Prijcker (2008) described different failure processes (Appendix 1) for start-ups, ambitious growth companies, dazzled growth companies and apathetic established companies. In all these processes, the impact of management is clear: managerial mistakes or manager's lack of experience are major factors in all failure processes. There seems to be, however, significant differences in terms of the errors made by management between the different failure processes. The managerial issues that seem to affect failure are represented in Table 6. They are divided in to competences and skills, motivation and personal characteristics.

Table 6 Causes of bankruptcy: managerial issues (Ooghe & De Prijcker 2008, 234)

	Unsuccessful start-up	Ambitious growth company	Dazzled growth company	Apathetic established company
Competences and skills	Insufficient competencies and skills in many areas	Wrong estimation turnover		
Motivation		Lack of financial background Enduring motivation	Very motivated	Insufficient motivation and commitment
Personal characteristics	Rashness Authoritarian leadership	Persuasiveness Risk lovers Over-optimism	Over-optimism Dazzled	Inertia

According to Ooghe and De Prijcker (2008, 234) the major shortcoming of management in unsuccessful start-up is their rashness in establishing a company without taking advice and without anticipating possible threats. This is highly correlated to their insufficient competencies and skills. Additionally, some of managers seem to be too authoritarian. In ambition growth company's situation, danger is the overestimation of turnover. It is caused by either lack of skills or by personal characteristics (over-optimism) that affect management's ability to comprehend information correctly. Management in dazzled growth companies does not lack experience, competencies or skills. The main reason for their bankruptcy is management's dazzled over-optimism after their previous successes. Finally, management in apathetic established companies are inert and lack motivation and commitment, but neither skills nor competencies. (Ooghe & De Prijcker 2008.)

4.3.2 *Entrepreneur's financial concerns*

When it comes to entrepreneur's financial issues, it is argued that entrepreneurs with a portfolio of ventures or wealth may more easily accept the financial costs of a single

failure. They are likely to be impatient for success and invest aggressively, and therefore they are increasing the chances of large financial gains and losses. (Ucbasaran et al. 2013.)

Entrepreneurs are also able to escalate commitment to a failing unit or business, to avoid the final failure. This usually delays the failure but increases the cost of it when it finally occurs (Shperhed et al. 2009). A prolonged and delayed failure might create businesses referred as *permanently failing* (Meyer & Zucker 1989), *chronic failure* (van Witteloostuijn 1998) or *living dead* (Ruhnka et al. 1992).

Sarasvathy (2003, 21) described the affordable loss principle as “*committing in advance to what one is willing to lose rather than investing in calculations about expected returns to the project*”. This principle, according to Dew et al. (2009), provides the resolve to move forward but also emotional backup required to quit when the time comes and thereby protecting the entrepreneur from the before mentioned escalated commitment.

4.3.3 *Learning from failure*

A central concern in organizational and entrepreneurial learning from failure is that mistakes made in a crisis are repeated – a process interpreted as a failure to learn from the past events. In addition, while the importance of learning from failure is highlighted often as a basis for improved response to crisis, it seems that learning from failure is not as straightforward as some analysis have interpreted (Antonacopoulou & Sheaffer 2014). There seems to be a strong assumption that an understanding of what caused previous crises and the opportunity to learn from them can prevent the reoccurrence of future ones.

Another crucial problem in the literature on business failures and owner-manager experiences has been identified several times, for example by Stokes and Blackburn (2002): the way we view failure has followed the cultural norm that failure is a negative event. However, failure is proven to stimulate remarkable changes in entrepreneur’s self-awareness, and the underlying assumptions and social practices that guide entrepreneurial action. Thus, failure has a central role in facilitating more sophisticated entrepreneurial mental models, in helping current and future entrepreneurs and organizations to avoid failures, and in learning experience that can turn into more successful organizations and international business (Cardon et al. 2011; Cope 2011). Still, it has been pointed out that not all failures are equally adept at facilitating learning (Sitkin 1992) and that it is important not to privilege learning from failure over learning from success (Ellis & Davidi 2005). Cannon & Edmondson (2001) argue that there are two capabilities that increase the chances of learning from failure in organizations. Firstly, individuals must be able and willing to take risks and accept that some activities will result in failure. And secondly, they must be able to confront failure directly rather than covering it up.

Cope (2011) summarizes that from entrepreneurial point of view (EL), failure is agonizing and costly, having a negative impact on the entrepreneur's confidence, productiveness and risk-taking prosperity. To learn from failure individuals must overcome the loss and engage in processes of grief recovery. Cope (2011, 620) concludes that failure represents one of the most complex but valuable learning experiences that entrepreneurs "*will ever have the (mis)fortune to engage in*".

Cannon & Edmondson (2001) note that the level of significance of learning is not necessarily comparable to the size or scope of a failure. Learning can emerge from major failures such as launching a failing product, and from uncovering a small failure, e.g. in internal communication matters.

From organizational point of view (OL) scholars have advanced considerably in understanding the nature and modes of learning. However, the dynamics of the learning remain a key challenge (Antonacopoulou 2009) considering its impact to organizational competitive advantage and even for their survival (Lähteenmäki et al. 2001). At this point it is relevant to note, that OL is discussed in this thesis only in a situation of a minor failure (i.e. excluding ceasing to exist, bankruptcy), since organizational learning can only happen in a still existing organization.

It is also relevant to distinguish organizational learning from learning organization, since these two closely related terms are sometimes used interchangeably. OL is a concept used to describe certain types of activity that take place in an organization while the learning organization refers to a particular type of organization of itself. The objective of theorizing these two terms differs in the following way: in OL studies the objective is to build theories by systematic data collection, whereas in studies concerning learning organization the objective is to improve organizational performance by rough case studies and action research. (Tsang 1997.) However to simplify this thesis, the author uses OL as the main term.

Economic models of industry evolutions explain the organizational exit decisions as an outcome of organizational learning (OL) and market selection (Cefis & Marsili 2012). Literature emphasizes that the knowledge underlying the innovation process is a strategic asset for the organization and helps it to gain a competitive advantage and to survive. In their study Cefis and Marsili (2012) found that the ability to innovate is an important determinant of organization's exit decision. Innovation seems to open alternate modes for the organization to exit, in the form of an exit by merger or acquisition, which can be seen as a better solution compared to forceful closure.

What can be learned of failure and thus be the positive outcome from failure? The knowledge often relates to entrepreneur's self as an entrepreneur, manager, and leader. These are e.g. issues surrounding the financial management; managing stakeholder relationships; building partnerships; managing the challenges of growth, as well as

understanding the marketplace and competition (Shepherd 2003; Singh et al. 2007; Cope 2011).

Cannon and Edmonson (2001) note that learning requires employees to adopt a learning orientation to conflicts and mistakes even if their natural prejudice is not naturally adopting to it. Learning requires also behaviors that can be seen as interpersonal and career risks, i.e. admitting failure involves focusing on the probable benefits that can be gained during and after the unpleasant process.

In addition, Cannon and Edmonson (2001) list both individual-level and organization-level barriers to learning from failure. Individual-level barriers start to build already during childhood when children are conditioned to avoid failure. According to them, psychological research agrees that people regularly engage in activities that enable them to maintain or improve their positive self-esteem, e.g. people with high self-esteem tend to focus on their successes and positive qualities rather than their negative qualities and failures. Facing failure can be seen as an unpleasant form of feedback and hence, interpersonal psychological factors create a dilemma that threatens individuals' ability to learn from failure.

On the other hand, organizational-level barriers base on the risk of stigmatizing and cutting off individuals that are associated with failure. An organization committing to learning from failure does not guarantee that those involved in a failure or crisis are not viewed negatively. Promotions and other organizational rewards may be negatively affected by the stigma of failure: if members of the organization are scared for their compensation or future opportunities, they will be unlikely to reveal failures. To summarize, learning from failure requires overcoming remarkable barriers on two different levels, and can be challenging for both the company and for the individual. (Cannon & Edmonson 2001.)

There has also been criticism towards claims that business exits should not be seen as failures. However, Coad (2014) argues that most business exits are unsuccessful. He continues that glorifying entrepreneurs to the extent that even their failures must be considered as successes, is dangerous and can even have severe economic consequences. Coad emphasizes that in the case of learning from failure it should always be called as *learning from failure*, and never be called *learning from success*. Furthermore, in the spirit of Sitkin (1992), whether there is any economically significant 'learning from failure' it must not be assumed outright. Accordingly, the closure event should always be referred as a failure rather than a success.

Another criticism towards organizational learning (from failure) is, whether all learning is valuable. According to Lähteemäki et al. (2001) it seems that there is an underlying concept in OL literature that learning always means attaining the desired developments. However, it must be noted that organizations (or people) might learn bad

habits in addition to or instead of good ones. This is in line with the previous statement that not all failures are equally adept at facilitating learning.

4.4 Antecedents and consequences of failure

To coherently understand the phenomenon of failure, the final step to study is the avoidance of it, preparation for it and barriers that might prevent it to happen. In this chapter, the author is going through these subjects only in a narrow matter, since they are relatively immense already as their own.

As Porter (1976) stated there are series of impediments working against divestment decisions, in a way that companies are inclined to endure unprofitable businesses. Organizations attempting to exit markets evaluate the alternates and their consequences. Ansic and Pugh (1999) note that the expected present value of staying in the market influences market-exit decision, since it is justified for a company to exit only when prevailing losses surpass the present value of anticipated profits. However, as we will note next, decisions based on this assumption are not as straightforward as they seem, and that the final exit-decision are far more complex. Barriers to exit might become remarkably high and organization might find itself staying in struggling business environment even if the losses exceed the value of expected profits.

According to Porter (1976) barriers arise from the industry environment, strategy and decision-making process of a company, and they can be categorized into three broad classes: 1) structural (economic) barriers, 2) corporate strategy barriers, and 3) managerial barriers.

Structural exit barriers are the characteristics of businesses that causes the companies to stay in the market even though they are unprofitable, i.e. earning a rate that is below the cost of capital. These barriers are usually durable and specific assets: the more durable the assets are, the more specific they are to the certain industry or location, the less likely it is to be sold off or shut down. (Porter 1976.)

Corporate strategy exit barriers are the relationships between unprofitable unit and others in the organization (Porter 1976), i.e. the more complementary or linked the business unit is to others, the less likely will it be economically justified to sell or shut down the unit (Benito & Welch 1997). These relationships could be for example in sales or distribution activities, supplier management or shareholder relations (Porter 1976).

Finally, the managerial exit barriers are characteristics of the company's decision-making process that avert the management from making decisions to exit even though they are justified on economic grounds. In other words, these produce decisions not in the best interest of the company (Porter 1976). Managerial exit barriers can be divided into two categories: information-related barriers and conflicting goals.

First ones are situations where a company is earning unsatisfactory return in a unit but is not aware of it since the financial information is not showing it clearly enough. Not only the problem is in the absence of appropriate financial and accounting information, but also in lack of strategic and operating data, that is non-quantifiable. These are crucial information flows for the decision making of the future of a unit. Porter adds that not only the lack of ongoing and appropriate data are impediments to exit, but also the difficulty of gathering the relevant and correct information for the exit calculations as well. In other words, the data that is available, is usually designed to measure the health of a business, and hence, inappropriate for exit decision-making. Another information-related barrier to exit is the cost of planning and executing the process itself, once the decision is made. As there exists labor protection, and the impact of communities and societies is high, exiting from a unit involves an immensely complex and expensive process. (Porter 1976.)

Secondly the conflicting goals stands for the situation where management's goals are different from the overall economic goals of the organization. This category can be sub-categorized into two groups: a single business or division, or the management of multibusiness company. Porter (1976) lists as source of conflicting goals in single business companies or divisions to be:

- Exit being a blow to a manager's pride in his/her professional competence
- Exit severing identification with a business
- Exit taken externally as a sign of failure and thus reducing mobility elsewhere
- Exit threatening specialized managers' careers
- Exit conflicting with social goals
- Incentive systems working against exit

In multibusiness companies' sources of conflicting goals are according to Porter (1976):

- Exit viewed externally as evidence of poor corporate management
- Exit being a blow to a manager's pride (same as above in single business companies)
- Top managers of multibusiness companies identifying with particular businesses
- Exit decisions seen as placing blame or demonstrating lack of confidence in subordinates
- Over valuating the synergistic benefits of related businesses

Based on the previous Porter's (1976) classification, Nargundkar et al. (1996, according to Karakaya 2000) identified, six major exit barriers: cost of divestment, operating fit, marketing fit, forward vertical integration, backward vertical integration, and number of years' association of the business unit with the firm. It is notable that executives consider backward and forward vertical integrations to be the most essential barriers to exit.

In the analysis of market entries and exit, sunk costs have been viewed as forming barriers to both entering and exiting a market (Clark & Wrigley 1997). From economic

perspective sunk costs may be an 'irrational' barrier to exit but in reality, they function as affective exit barriers. There is empirical evidence suggesting that durable tangible specific assets (e.g. high sunk cost in machinery) discourage exit (Siegfried & Evans 1994). According to Karakaya (2000), other studies are indicating that fixed costs are also related to the cost of divestment as organizations are deciding whether to continue with the current state, compete over greater market share, or exit the market.

The industrial organization (IO) field literature suggests that divestment may depend on diversification. Porter (1976) noted that owners of independent units are more willing to accept lower rate of return and have a lower opportunity cost than multi-industry companies owning units. In addition, as the author have mentioned previously, divestments are facilitated in diversified companies since the decisions are often made by top-managers that are emotionally and/or geographically remote from the units that are considered to be divested (Wright & Thompson 1987). In other words, owners of independent plants/companies that are in the middle of the unit (i.e. emotionally and geographically close to it) might struggle to 'let the organization fail' even in a situation where it is already an inevitable path for the organization.

On the other hand, from strategic management's point of view there are also several exit barriers that decrease the likelihood of exit. Harrigan (1980) included following barriers: strong brand loyalties, well-established distribution channels, goodwill generated by financial assistance provided to customers, and the high strategic importance of the business to the firm.

It is important to note that according to Karakaya (2000) market exit in business-to-business (B2B) markets is different from business-to-consumer markets (B2C). This is usually due to the nature of buyer-supplier relationship which is in B2B markets stronger and closer than in B2C relationships. The barriers to exit differ especially in the magnitude of the barriers. According to Karakaya, due to the sunk costs and the money invested in capital goods, switching costs are much higher in B2B markets.

As mentioned before, often before failure happens some sort of crisis might arise, and thus proactive preparation of the organization could be helpful to prevent the failure to happen, at least in full force. The author will not go too deep into analyzing preventative actions nor preparations of the organization since the subject is too wide to include to this thesis. However, it is useful to understand some basics of it, to have a more complete understanding of failure and its occurrence. Kovoov-Misra et al. (2000) define crisis preparation as the activities undertaken and processes developed by an organization to enable it to prevent, contain and recover from a crisis event. They also conclude three general prescriptions about crisis prevention presented in the literature: 1) organizations should proactively address the underlying systematic causes of potential crises, 2) organizations should institute mechanisms to signal detection, and 3) organizations should learn and unlearn on a never-ending basis. Contrary to this thesis, Kovoov-Misra

et al. (2000) see crises as a combination of failures and dysfunctions across and within an organization's subsystems, which is somewhat contradictory to the definition of failure used in this thesis. Once again, the mixture of different terminology and definitions is complicating the overall understanding of the failure process and must be addressed again.

Another point of view to failure/crisis preparation is containment, which refers to processes developed to control crises once it occurs. Several studies suggest that organizations should have plans for crisis management and/or crises management teams (e.g. Mitroff 1988, Wisenblit 1989).

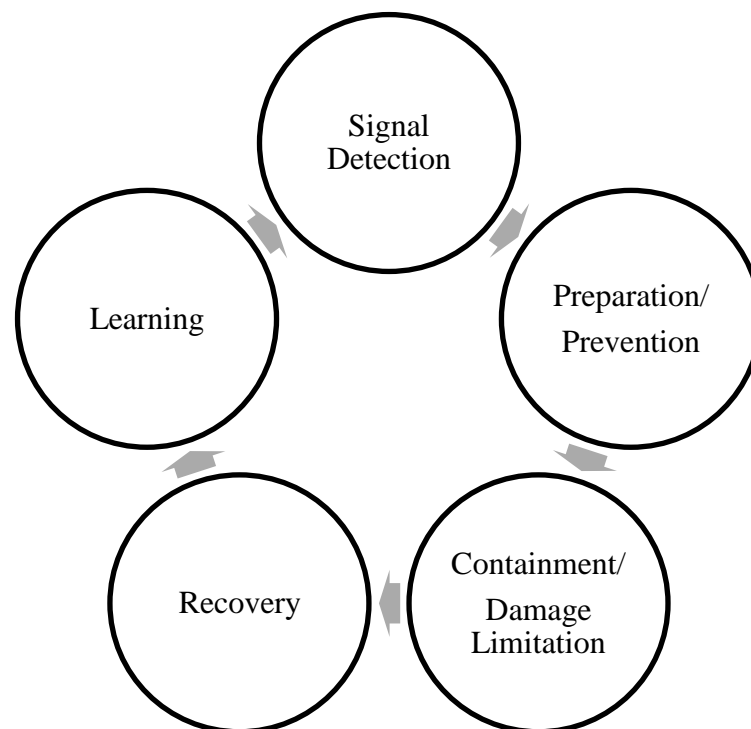


Figure 11 The Five Phases of Crisis Management (based on Mitroff 1988)

In Figure 11, Mitroff (1988) describes crisis management to be a never-ending cycle, where organization must constantly learn from its past and actively detect signals of failure/crises. Preventative actions as well as limiting the potential damage to minimal is vital steps before recovering from crisis and hence prevent a complete failure of the organization. These phases are both part of crisis preparation and crisis containment.

The relationship of crisis and learning is based on the presumption that a better knowledge of what causes crises in addition to the opportunity to learn from previous failures can help prevent the possible upcoming crises (Kovoor-Misra et al. 2000). However, there seems to exist some defensive mechanisms that actually causes the organizations to be more prone to crisis. The “organizational ideal” (Schwartz 1997) is a situation where members of organization develop a strong identity with the organization,

which generates a myopia, that hinders their ability to see and perceive warning signals. This boosts the belief that no action needs to be taken.

In other words, and to summarize, learning from previous crisis is not a simple step to make, and even exact same type of crisis may occur again due to the inability to thoroughly and truthfully seeing the warning signs.

5 SUMMARY AND CONCLUSIONS

This thesis focuses on understanding the basics and core of failure in international business and entrepreneurship, and as thoroughly as possible and focusing on the most relevant previous research, to study what academia knows already on failing, and what should be studied more in the future.

This thesis aimed to answer the following research questions and sub-questions:

- What is failure in international business and entrepreneurship literature?
 - What other terms are used to describe the concept of failure?
 - What are the most relevant causes of failure from environmental, organizational and individual perspective?

First, the author focused on defining failure as a term, and the process of how it occurs. In this thesis failure was determined (in the context of international business and entrepreneurship) as *termination of a business (or a unit) due to its' inability to reach goals for whatever reason and thereby failing to satisfy stakeholder expectations. It is a dynamic set of actions and consequences that can be attached to de-internationalization, exit, divestment and withdrawal, and resulting the organization to cease activity in some extent or completely.* To be clear, it must be noted that exit, withdrawal and closure are not always case of failure or due to failure, since there might be other reasons behind them. After the thorough determination, the most common and/or most studied causes of failure were narrowly studied by dividing them to different categories/themes to build a structure for the rest of the thesis.

Rest of the thesis was divided into three perspectives: environmental, organizational and individual. Additionally some antecedents and consequences are also studied. In these chapters author concluded the most important, relevant and valid literature from academic field of research concerning the various themes around failure. These perspectives and themes were chosen based on the relevance, amount of literature, and then, divided based on earlier failure studies and their thematic divisions.

Based on this thesis we can conclude that failure represents one of the most challenging, complicated but still beneficial learning experiences that organizations and entrepreneurs engage in. Even though organizations cease to exist due to the inability to reach goals and thus, from organizational perspective fails in the most central “reason to exist”, entrepreneurs and managers can actually gain value from failing as the experience prepare them for upcoming challenges better than only enjoying success. The valuable lessons of failure can give organizations, managers and entrepreneurs appreciated knowledge of their capabilities and, furthermore, a solid base to build on new business. From society’s viewpoint, this must be recognized and even celebrated by policymakers when building and developing business and entrepreneurial activity. As Carter and Wilton (2005) noted in their study, the entrepreneur’s desire to go into enterprise, and the success

or failure in it, is highly dependent on the environmental factors (e.g. national economy, politics, entrepreneurial culture) to which governments can have a strong impact on.

What is surprising is the fact that such relevant and central part of making business, or anything at all, is so poorly studied. The stigma around failure is definitely affecting the interest of academia to study the subject – which is a thing that the author faced too while trying to find possible empiric sources. Decision-makers are not thrilled to discuss their failures even if anonymity is granted. To be able to thoroughly understand the subject and to do valid research on it, the stigma should definitely be removed from it. However, this is something that exists deeply in the western culture. We are afraid of failing, and we are not usually willing to admit failures. Hopefully, in the future, there happens some development on this, so that scholars would be able to better study the subject, and hence, help organizations to avoid failure or at least help them fail in a “useful/right” way.

From the conceptual side this thesis has shown that research on failure in international business and entrepreneurship is still at the stage of identifying and conceptualizing the subject. This vagueness and indecisiveness reflect in the multiple ways of defining the main terminology, operationalizing the whole concept, classifying the subject and even getting proper statistics on the matter. Therefore, there is a need to standardize and harmonize existing knowledge through agreement on a common terminology and set some commonly agreed ground rules on the subject.

The difficulties concerning the finding in this thesis are understandable, however, since failures are studied in a very dynamic environment: no organization, cultural environment, financial environment nor decision-makers are the same – every study is affected by dozens of different factors which are nearly impossible to compare with others. To reduce the effect that ever-evolving environment has on the case studies, more longitudinal studies are required to understand the very basics of organizational failure, i.e. studies on long-existed organizations acting in a specific culture/country. Future research should also have a more cross-cultural orientation to understand the failure processes in internationalization process and in international activities. Moreover, in order to minimize the impact of situation-specific factors, the research could focus on a certain industrial group. Failure studies also encounter multiple biases, such as antifailure bias, which must always be taken into account especially in case studies that use narrative methods.

Finally, the author presents some propositions and ideas for further research. Before entering international markets and specific countries managers usually compare different alternatives and are probably able to screen out the riskiest countries. Over time, there obviously occur changes in the analysis of which are the riskiest countries, and the interesting question is to properly understand what the factors are based on which the organizations make decision concerning different countries. This question could be widened into studying properly cultural differences – for example, is there cultures that

are for every organization difficult to enter? For example, according to Burt et al. (2003) it seemed in the beginning of 21st century that quite few foreign retailers had been successful in Germany and Italy, whereas in the Netherlands and Spain failure rates were remarkably lower. Another interesting perspective is whether there are remarkable differences between sectors and business areas – are some sectors more prone to fail than others?

Furthermore, longitudinal studies could be highly beneficial for both academia and business. Both research on organizations in steady and ordinary positions, as well as the ones in crisis can provide essential insights. However, we must admit that collecting proper data for longitudinal studies is definitely arduous and challenging, and the results could still be non-generalizable.

One key theme in this thesis has been the combination of internal and external factors affecting the success and failure of an organization. This equilibrium is undoubtedly difficult to interpret properly, i.e. based on which should researchers put weight on different factors. Management research should focus on developing a combining approach to cover both external and internal factors, since they are undoubtedly linked in business but constantly separated in research.

As mentioned in this thesis, there is still no clear understanding on factors such as timing and drivers of divestment and exit decisions. There are contradictory results on how the age or size of an organization affects its probability to fail in international environment, especially since the stage of life-cycle on which organizations internationalize vary. Often failure is seen as a rarer incident in well-established companies. However, this has been questioned for example by Moore et al. (2000). Additionally, it seems that young SMEs may be much more international than anticipated. There seems to still exist contradictory results on the prevalence of failure based on the age of a company.

Exit barriers is an interesting path of research and it seems, according to Karakaya (2000) that the differences of B2B and B2C companies' barriers are still understudied. The exit mode decisions of different types of companies (e.g. manufacturing vs. service) and barriers attached to the decision-making should definitely be of more interest in the future, since it could help managements to avoid even bigger mistakes in the failure process.

All in all, there is a need for detailed research into the failure, especially using various research methods. For example, case studies with relatively narrow set of samples are not adequately building frameworks or ground rules for failure studies. These, in turn, are vital for building databases that are actually comparable, since as mentioned before, there seems to be some inconsistency in statistics due to problematic definitions of failure and failure-related terminology. In addition, it seems that research has tended to be fragmentary and focusing on documentation and explaining origins of failure, rather than

considering implications and outcomes of it. The problem is that research into failure is difficult: rarely will people talk of their previous failures.

A better understanding of failure is definitely needed, for both academics and business-wise reasons.

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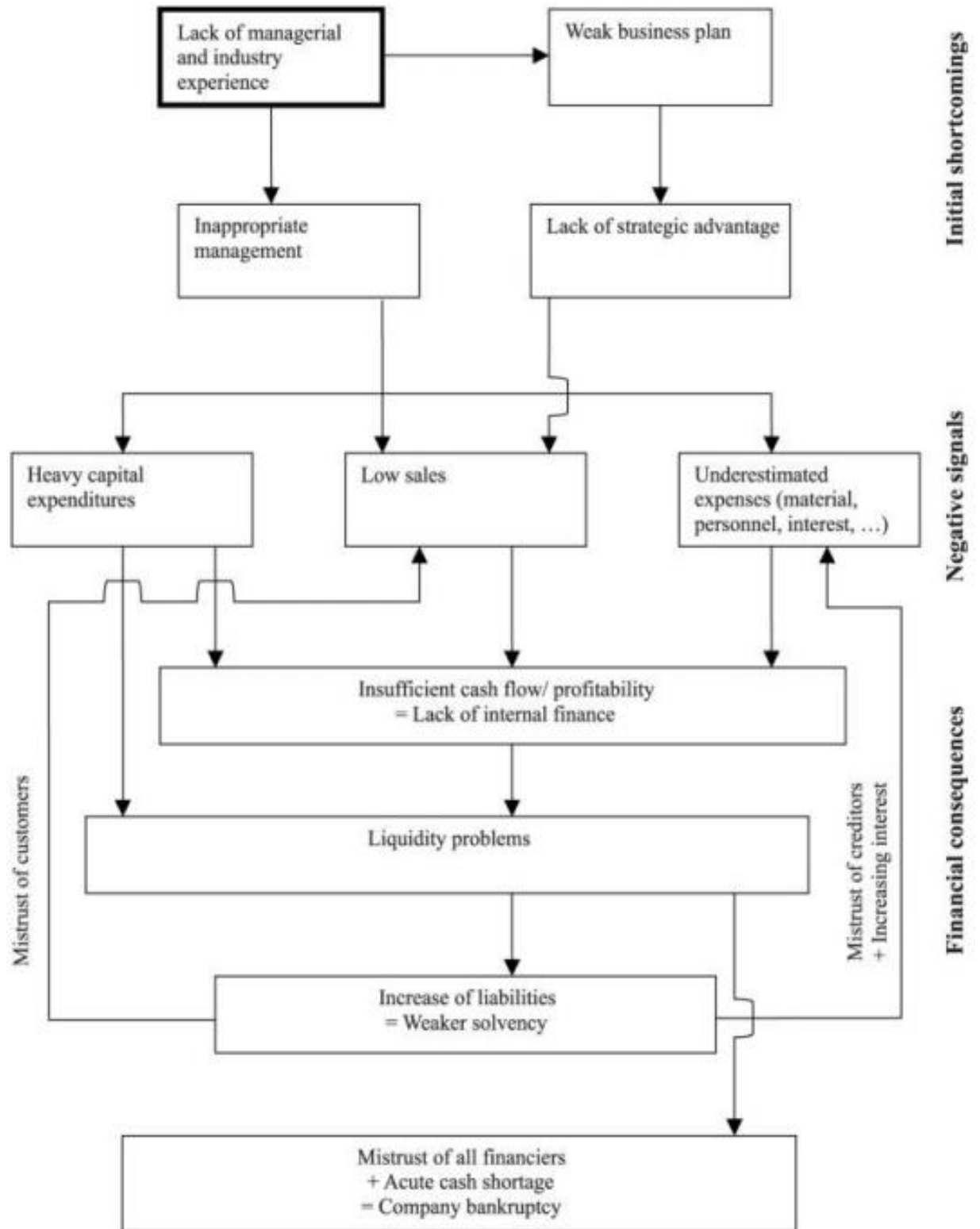
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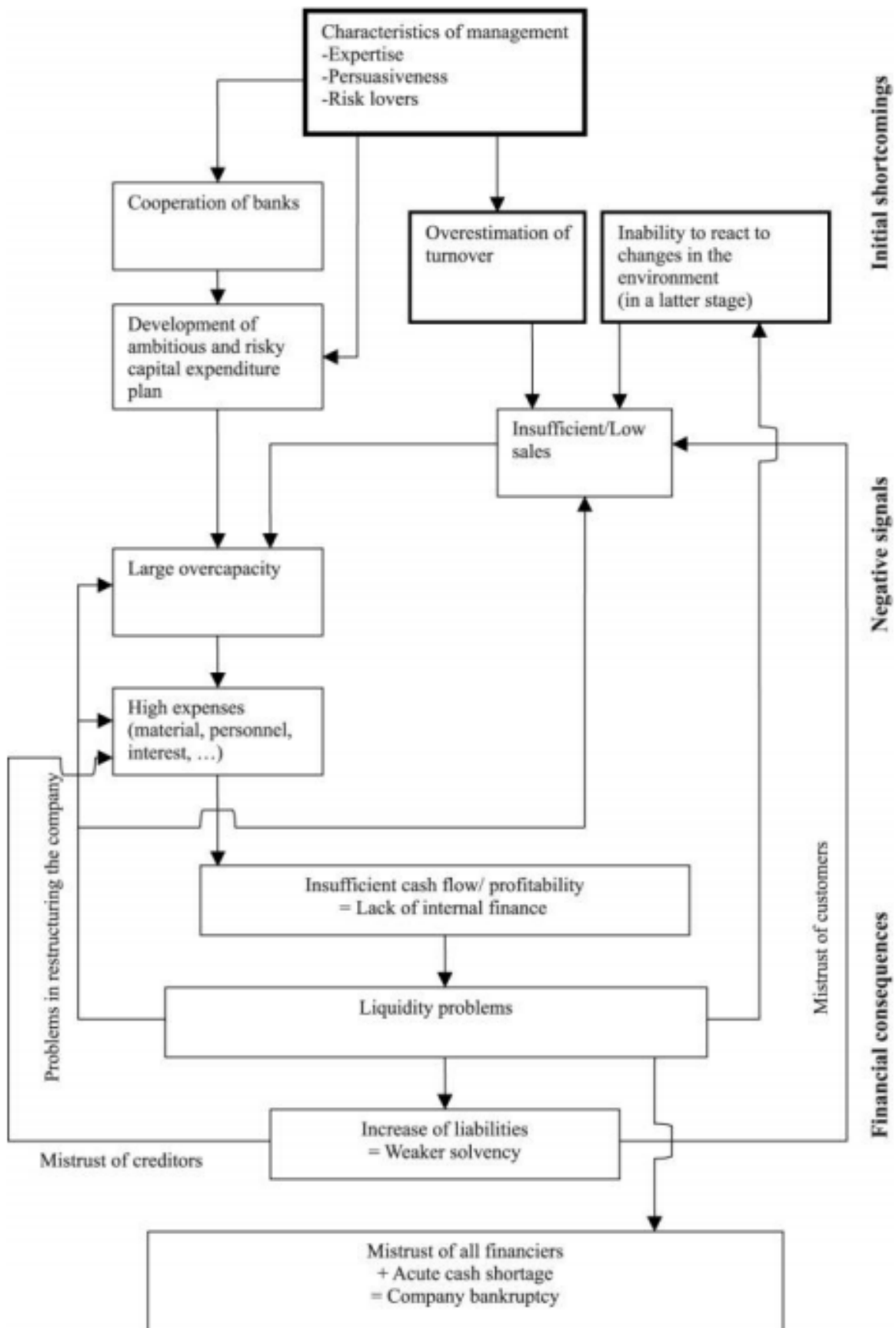
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APPENDIX 1: THE FAILURE PROCESSES OF FOUR TYPES OF COMPANIES (OOGHE AND DE PRIJCKER 2008)

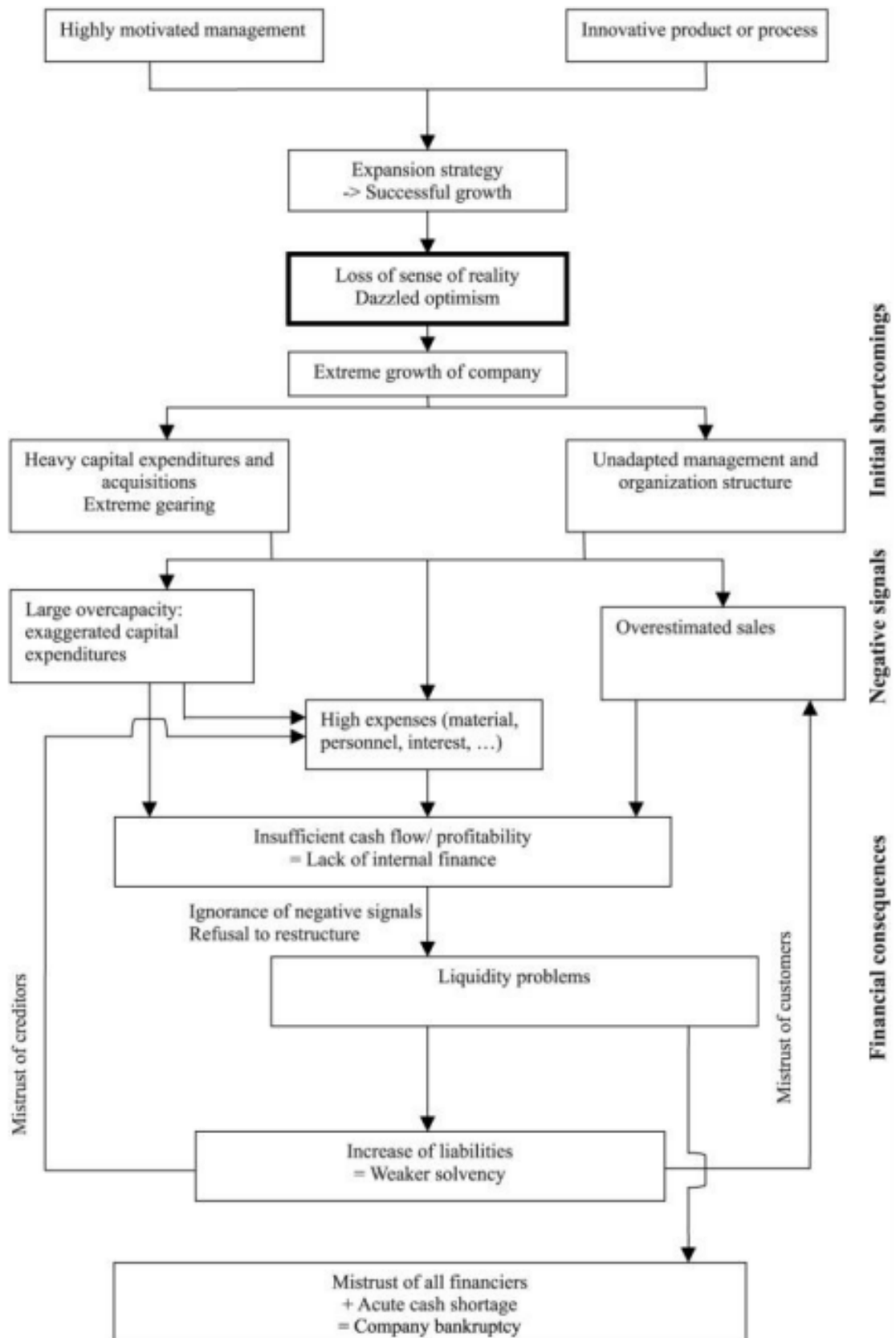
1. Unsuccessful start-up



2. Ambitious growth company



3. Dazzled growth company



4. Apathetic established company

