

# Successive failure, repeat entrepreneurship and no learning: A case study

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**Dates:**

Received: 17 July 2009  
Accepted: 11 May 2011  
Published: 14 Oct. 2011

**How to cite this article:**

Pretorius, M., & Le Roux, I. (2011). Successive failure, repeat entrepreneurship and no learning: A case study. *SA Journal of Human Resource Management/SA Tydskrif vir Menslikehulpbronbestuur*, 9(1), Art. #236, 13 pages. doi:10.4102/sajhrm.v9i1.236

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**Orientation:** Current theories of repeat entrepreneurship provide little explanation for the effect of failure as a 'trigger' for creating successive ventures or learning from repeated failures.

**Research purpose:** This study attempts to establish the role of previous failures on the ventures that follow them and to determine the process of learning from successive failures.

**Motivation for the study:** Successive failures offer potentially valuable insights into the relationship between failures on the ventures that follow and the process of learning from failure.

**Research design, approach and method:** The researchers investigated a single case study of one entrepreneur's successive failures over 20 years.

**Main findings:** Although the causes varied, all the failures had fundamental similarities. This suggested that the entrepreneur had not learnt from them. The previous failures did not trigger the subsequent ventures. Instead, they played a role in causing the failures. Learning from failure does not happen immediately but requires deliberate reflection. Deliberate reflection is a prerequisite for learning from failure as the entrepreneur repeated similar mistakes time after time until he reflected on each failure.

**Practical/managerial implications:** It confirms that failure is a part of entrepreneurial endeavours. However, learning from it requires deliberate reflection. Failure does not 'trigger' the next venture and educators should note this.

**Contribution/value-add:** Knowing the effect of failure on consecutive ventures may help us to understand the development of prototypes (mental frameworks) and expand the theory about entrepreneurial prototype categories.

## Introduction

### Key focus of the study

This study attempts to answer three questions. These are:

- Do failures trigger new start-ups?
- Do consecutive failures by the same entrepreneur have the same causes and preconditions?
- If so, what was the role of learning from failure if the entrepreneur repeatedly made the same mistakes?

### Background to the study

Failure is part of business but many see that it negatively affects people and firms. Many reasons for failure have been suggested. They include diminishing resources, poor leadership, strategic and operational issues. What is undeniable is that failure is complex (Pretorius, 2009) and many variables that determine how it occurs influence it. Generally, most people suggest that failure is good – as long as one learns from the mistakes.

### Trends from the research literature

The causes of failure are largely a matter of definition. Fredland and Morris, as early as 1976, stated that one cannot isolate the 'causes' of failure. Indeed, they say, any attempt to do so is a futile exercise that boils down to ascribing blame and nothing else. However, Charitou, Neophytou and Charalambous (2004) contend that the factors leading to business failure vary but one can identify them.

The researchers designed the present study to explore the effect of successive failures on the ventures that follow them and to determine whether those who experience the failures learn from their experiences. They investigated a situation where one entrepreneur experienced several failures and looked for similarities and differences between the failed ventures.

### Research objectives and questions

The literature does not make it clear whether failure can trigger new entrepreneurial processes or whether failure is the result of pursuing new ventures. The latter suggests repeat entrepreneurship.

If failure leads to exploiting new opportunities, we would benefit if we understood the process it follows.

Learning from failure can add to what we know about entrepreneurial learning (Huovinen & Tihula, 2007). Alternatively, if exploiting new opportunities causes failure, then understanding how it happens can help to prevent failure. In addition, it is not clear how one learns from failure and whether it requires some specific mechanism, like deliberate reflection, to do so.

The research question of this study follows. What are the relationships between successive failures, the preconditions for failure, the causes of failure, the entrepreneurial process and learning from failure?

Therefore, the research objectives are:

- to describe the relationships between the preconditions for failure, its causes, the entrepreneurial process and learning from failure
- to describe the process and prerequisites for learning from failure.

### The potential value-add of the study

It is important to investigate learning from failure to find out whether it can trigger new opportunity exploitation. Do repeat entrepreneurs use previous failures as triggers for new opportunity exploitation? What do they learn from their failures that they take to the next venture?

Knowing the effect of failure on subsequent ventures may help us to understand the development of prototypes (mental frameworks) and expand the theory of entrepreneurial prototype categories by adding a failure prototype to those of novice, experienced and repeat entrepreneurs. Explaining the relationship between successive failures and learning from failure also has important practical value for training entrepreneurs. Sensitising prospective entrepreneurs and learners about these relationships can be critical for their own endeavours.

The article starts by describing the core causes and preconditions of failure briefly because of the underlying

determinism of the failure event. Secondly, it explains the process of entrepreneurial learning and emphasises the role of reflection in learning from the failed ventures. Thirdly, it explains the research design. Fourthly, the study describes a case of successive failures and an analysis of the case, the entrepreneur's experiences and his responses to each. Thereafter, the researchers discuss the findings whilst looking for substantiation and insights from the literature.

Finally, the researchers draw conclusions about:

- the role of failure on subsequent ventures
- what one needs to learn from failure to make the learning meaningful.

### Causes and preconditions underlying failure

It is doubtful whether there is a single cause for the failure of a venture. However, there is a combination of factors.

An example is the 'liability of newness'. This is when a venture is undercapitalised initially, has an ineffective team, an unclear business definition, as well as selling and distribution problems.

Whilst the literature suggests causes, they vary depending on the researcher's focus. Longenecker, Simonetti and Sharkey (1999, p. 503) state that there are four main schools of thought about the causes of failure.

The first school of thought is that failure at the top (like poor leadership in vision, strategy, positioning and making decisions) is the cause of failure. This school believes that failure originates from human factors, mainly associated with leadership.

The second school believes that customer and marketing failures (like an inability to understand customer needs, markets, competition, ineffective strategies and expansions) are the cause. This school believes failure originates from internal factors, mainly the inability of managers to respond to external changes.

The third school feels that failures in financial management (like the lack of working capital, excessive debt, cash-flow problems, eroded profit margins and excessive overheads) cause failure. This school believes failure has financial causes, mainly through incorrect financing and financial management.

The last school holds that system and structural failures (like internal operating issues including technology problems, ineffective management information systems and ineffective operating processes) cause ventures to fail. This school believes failure originates from both internal and structural causes.

Human causes that relate to leadership, management, individual skills and behaviour (which includes attitude, beliefs and motives) are important contributors to

entrepreneurial intention (Urban, Van Vuuren & Owen, 2008, p. 3). They are particularly interesting to this study.

Lorange and Nelson (1987, p. 42) introduce specific categories of the causes of failure. These are:

- decline, entrapment and self-deception
- hierarchy orientation
- cultural rigidity
- a desire for acceptance and conformity
- too much consensus and compromise.

Their perspective focuses on the leadership and management of large businesses.

In a comparative study of decliners and non-decliners, D'Aveni (1989) defines 'organisational decline' as a pattern of decrease over time in a firm's internal resources, which an index of internal resource munificence measures. The index combines two main aspects of decline. These are declining human (managerial) and monetary resources.

He reports four important findings about the timing and nature of the strategic and managerial consequences of organisational decline. The consequences of decline include managerial imbalances, inefficient actions, the effects of centralisation and strategic paralysis. However, firms may delay or even avoid bankruptcy if their environments are sufficiently buoyant to support deficiencies in resources.

D'Aveni (1989, p. 581) concludes that managerial and strategic problems cause decline, whilst decline causes managerial and strategic problems in a 'vicious circle pattern'. He describes this as 'strategic paralysis' that prevents the firm from finding and pursuing new directions. He suggests that managerial imbalances are a cause of this paralysis.

Failure is not an event that happens in a vacuum. Weitzel and Jonsson (1991) see failure as a downward spiral of decline. They report five stages associated with decline and describe problems that are harder to reverse if the venture slides further towards failure. Briefly, they describe the stages as the blinded, inaction, faulty action, implementation crises and, finally, the dissolution stage. They identify the inability of leaders to recognise change or to react properly and in time to reverse decline as crucial.

Boyle and Desai (1991) support this with a list of the causes of failure in small firms. They suggest four categories based on the environmental (internal or external) origin of the failure and on whether it is administrative or strategic in nature. It seems that, contrary to conventional wisdom, most businesses fail because of internal factors that managerial action (or inaction) and discipline affect.

Theng and Boon (1996) confirm that endogenous factors are significantly more important than exogenous factors when one ranks the causes of failure.

The structural causes associated with decline are diverse. They include increased centralisation, lack of long-term

planning, curtailed innovation, loss of competent staff, loss of resources, fragmented pluralism (special-interest groups that become more vocal) and non-prioritised cutbacks (Cameron, Whetten & Kim, 1987).

Other elements in this category include age, size and life cycle stage of the venture. From the resource-based view, Thornhill and Amit (2003) suggest that young firms are more likely to suffer from resource and capability deficiencies than older firms are. This is the essence of the 'liability of newness' (Shepherd, 2005; Zacharakis, Meyer & De Castro, 1999).

'Liability of newness' has a lot to do with firms seeking legitimacy with their suppliers, clients, creditors and other organisations in the industry. This legitimacy increases as firms learn to cope with the challenges of the industry.

This liability of newness is dissimilar, although closely related, to the 'liability of smallness'. This refers to size that may prevent firms from competing in an industry. Kale and Arditi (1998) connect the liability of smallness with the firms' inability to create processes like learning and inventing roles as well as developing trust and cooperation between members in the organisations.

'Newness' therefore implies a lack of organisational learning and legitimacy coupled with smallness. It appears to be the primary factor underlying the high probability of failure. However, newly established firms have initial stocks of assets, goodwill, trust and financial resources that provide buffers for the initial period of establishing relations with clients, creditors and other organisations to channel resources to them (Kale & Arditi, 1998). The initial resources and endowments reduce the risk of failure even if performance is not entirely satisfactory.

After this period, when the buffers are depleted, the 'liability of adolescence' faces firms (Henderson, 1999, p. 281). The probability of failure during this period rises sharply. Henderson (1999) confirms the existence of the 'liability of newness' (where selection favours older and more reliable firms with social legitimacy) and suggests a liability of obsolescence (where firms become highly inert and their 'founding imprints' become increasingly more misaligned with their changing environments). He adds the liability of adolescence (firms that have used their founding assets but that have not yet accumulated sufficient skills and expertise). Henderson (1999) suggests that, contrary to general thinking, failure rates increase in adolescent firms as the effect of their original resource endowments decreases. However, the associated failure rates differ depending on the long-term strategies firms choose.

Entrepreneurial failure, start-up failure and different liabilities confirm that life-cycle stages do moderate the signs and causes of failure. These liabilities, one can argue, each describe a set of configurations that exist for the causal factors of decline and failure. In the same way the cause configurations vary with age (young vs. old), size (small vs.

big) and life-cycle stage (infant, growth, mature or decline) (Pretorius, 2010). Each set of configurations is associated with a different level of risk for the venture.

### Preconditions for failure

Therefore, decline does not stem from a single factor. It results from an 'accumulation of decisions, actions, and commitments that become entangled in self-perpetuating workplace dynamics' (Moss Kanter, 2003, p. 61). A 'precondition' is a 'condition (or set of configurations) that must exist or be established before something can occur'. Therefore, it is a prerequisite (Pretorius, 2008, p. 414). Francis and Desai (2005) call it a contextual factor.

There must be some preconditions for decline or failure. Richardson, Nwankwo and Richardson (1994) describe a range of environmental configurations that lead to different types of business failure crises.

They use four frog analogies as metaphors to describe the specific preconditions that would lead to each type of failure. They also differentiate between how these would appear for small and large ventures. Each metaphor describes a configuration that would require a different intervention to change each business into a financial performer. In their metaphors, they also equate organisations to leader type, personality and style to explain the configurations.

To Richardson *et al.* (1994), arrogance and success seem to lie at the heart of much of business failure. However, whereas the 'boiled frog' managers may be arrogant because of their long-standing position as major marketplace participants, the 'drowned frog' managers may be arrogant because they believe that they can reproduce their often-remarkable early success time after time despite the new and increasingly different and bigger contexts in which they look for success. The 'bullfrogs' show arrogance of a different kind. They think they are untouchable and indestructible and do not acknowledge the wrong actions that hurt their businesses financially. Finally, 'tadpoles' are entrepreneurs who are experiencing start-up failures.

Bollen, Merthens, Meuwissen, Van Roak and Schelleman (2005) use similar metaphors as a classification system for evaluating failures in European firms. They refer to unhealthy firms as 'tadpoles' and to firms that are over-ambitious and show extreme growth as 'drowned frogs'. 'Boiled frogs' are firms that are unable to adapt to environmental change, whilst 'bullfrogs' are managers involved in unethical and fraudulent behaviour. They conclude that no single factor dominates when explaining most business failures.

The frog metaphors are helpful. However, they focus strongly on the leadership of the decision-makers (supporting the human factor perspective). However, they are not conclusive as determinants of the preconditions. Other authors (like Stead & Smallman, 1999) describe alternative configurations of variables that may determine the specific preconditions.

Understanding venture failure requires one to consider four issues (Sheppard & Chowdhury, 2005, p. 240).

The first is that failure is not typically the imperfection of the environment (external preconditions) or of the ventures (internal preconditions). One should rather attribute it to the interaction of both forces. To be more exact, failure is the misalignment of organisations with the realities of their environments. Secondly, because failure involves aligning (or misaligning) ventures with their environment, it is, by definition, about strategy. Thirdly, because failure deals with strategy, we can make choices to accelerate it or avoid falling into its clutches. Lastly, because organisations can avoid failure even after a decline – rapid or prolonged – the ultimate failure of organisations really stems from failures to effect turnarounds successfully.

Therefore, it is critical to our understanding of organisational decline and failure to recognise that three linked factors – the firms' leadership (or management), their environment and the way firms interact with their environment – contribute to the specific configuration of variables that face them at a particular time. Preconditions are like 'snapshots' of circumstances during decline or failure and many underlying factors govern them.

This study attempts to identify the factors that are associated with the successive failures of one entrepreneur and the entrepreneurial learning associated with an irregular event like failure.

### Reflecting on failure and learning from the experience

Henry Ford went bankrupt five times before becoming successful in the car industry. He had this to say about failure: 'I strongly believe that there is often more to be learned from failure than there is from success if we but take the time to do so'.

Research suggests that much of the 'learning within the entrepreneurial context is experiential in nature' (Politis, 2005, p. 399). Cope (2003) reinforces the belief that entrepreneurial learning is experiential by quoting others who argue that entrepreneurs are action-orientated. Therefore, they learn from experience through activities like trial and error, explicit problem solving and discovery. According to Kolb (1984, p. 41), experiential learning is the 'process whereby knowledge is created through the transformation of experience'.

Therefore, entrepreneurial knowledge can result from grasping an experience and transforming it (Politis, 2005). She further suggests that, in the process of transforming experience, entrepreneurs may use two possible strategies: exploitation and exploration. 'Exploitation' refers to using pre-existing knowledge, whereas 'exploration' suggests choosing new actions that are different from those one has already taken. According to Politis (2005, p. 408), 'neither of these methods of transforming experience is necessarily better than the other'. She quotes March, who argues that



both ways of transforming experience into knowledge are essential for sustaining learning.

However, entrepreneurs' experiences may originate from prior successes and failures. Many successful entrepreneurs credit their learning from past failures as an important aspect of their experience base (Politis, 2005).

The literature mentions a number of causes of failure. Perhaps the most common is insufficient experience. It appears that entrepreneurs with more experience process their knowledge to perform the roles and tasks necessary for success more effectively and that the 'feedback obtained from the experience' (Shepherd, 2003, p. 318) increases their knowledge.

According to Politis (2005, p. 411), failures that are most effective at fostering learning are 'intelligent failures'. These are failures that 'provide a basis for altering future behaviour through new information from which to learn'. Politis (2005) also quotes Sitkin, who suggests that a prerequisite for seeing a failure as intelligent is that the outcome of action must be uncertain (not highly predictable) in order to provide new information from which to learn.

Negative emotions usually accompany failure. Shepherd (2003, p. 318) quotes organisational learning theorists like Lant, Milliken and Batra. They postulate that negative emotions stimulate search processes, learning and adaptation. For the self-employed, learning from business failure occurs when they can use the information they have about why the business failed (feedback information) in order to revise their existing knowledge of how to manage the business effectively.

According to Cope (2003, p. 431), this learning will help to 'revise assumptions about the consequences of previous assessment decisions, action and inaction'. He also quotes others who emphasise that some kind of crisis (like failure) is a prerequisite for a fundamental form of learning and for re-adaptation to happen so that learning can challenge or redefine the entrepreneur's mental models or frames of reference. In essence, a mental model simplifies entrepreneurs' views of the world. These views include their knowledge, beliefs and experiences as well as their implicit and explicit understanding.

Krueger (2007) states that deep beliefs determine and moderate the mental structures that drive the intentions and actions of entrepreneurs. Reflection on these deep beliefs leads to a better understanding and, therefore, improved learning.

One can divide learning into planned and unplanned learning. Much entrepreneurial learning is unplanned and experiential. The key to this type of learning is reflection, which turns experience into learning (Boud, Keogh & Walker, 1985; Bourner, 2003). Developing the capacity of entrepreneurs and business owners for reflective learning

is part of developing their capacity to learn how to learn. Bourner (2003, p. 268) points out that 'reflective learning plays a key role' in Kolb's idea of the experiential learning cycle and in Schon's theory of the reflective practitioner (Bourner, France & Atkinson, 2000).

Reflective thinking shares a two-stage structure with critical thinking. This brings 'the experience into conscious awareness and asking/responding to searching questions' (Bourner, 2003, p. 271). Although the content of reflective learning may be subjective, the process is not. This is partly because the core of the reflective learning process is a searching interrogative experience because of the new knowledge that results from the process and the action one takes in response to the knowledge.

### Grief and learning from the failure experience

There are two views about learning from negative emotions like those associated with failure. On the one hand, Barker and Moné (1998) suggest that organisational decline inhibits cognitive processes, restricts decision-making and limits the number of options available. This inhibits organisational change and/or adaptation and results in threat-rigidity theory. Shepherd (2003, p. 318), on the other hand, postulates that 'negative emotions stimulate search processes, learning, and adaptation'.

Shepherd (2003, p. 319) used the literature on grief and emotions to explore and gain a deeper understanding of the ability of the self-employed to learn from business failure. He describes the 'process of grief recovery' to explain that people learn by using the outcomes of action (feedback) to revise their belief systems. For the self-employed, learning from business failure occurs when they can use the available information about why the business failed (feedback information) in order to revise their knowledge about how to manage the business effectively. This learning will help to revise assumptions about the consequences of previous decisions, action and inaction.

There seems to be an emotional relationship between entrepreneurs and their businesses. The loss of a business is likely to generate a negative emotion – grief. People experience grief on the death of loved ones, when close relationships end because of separation or when they have to give up some aspect of life they think is important.

These 'negative emotions', according to Shepherd (2003, p. 324), reduce a person's ability to learn from the events. Shepherd proposes a dual process of recovering from grief. It involves oscillating between two processes: a loss orientation and a restoration orientation.

'Loss orientation' involves a confrontation and asking questions to understand the reasons for the outcome better. Those who suffer a loss may talk to friends, family and perhaps a psychologist, work through the grief process and come to terms with their loss. However, it is also important

to move on to a 'restoration orientation' and to search proactively for a new opportunity.

For self-employed people, founding a new business might accelerate recovery from grief. However, learning from their mistakes will be possible only if they have already been through a loss-orientation process. Without that first step, they might repeat mistakes because they have not 'sufficiently reflected on the loss' (Shepherd, 2003, p. 322) and may mean they do not learn from failure.

The research in this study focuses on this aspect.

## Research design

This section covers three aspects of the research design. These are the research approach, the case study as the research strategy and the research methodology. This is similar to the design that Serfontein, Basson and Burden (2009) describe.

### Research approach

The research approach was explanatory and qualitative in nature. It explains the embedded experiences of one entrepreneur and successive failed ventures across 20 years at a micro level rather than at a macro level.

In the case study, that covers the successive failures, several unanswered questions arise. Three are particularly interesting for this study.

Firstly, the researchers needed to identify whether there were similar preconditions and causes for the failed ventures. Four of the ventures were classified as business 'failures' by definition (Pretorius, 2009). Two others were forced closures or exits for reasons associated with start-up failure.

Secondly, this study was interested in whether the failures triggered the subsequent ventures or whether the failures were the result of the involvement with new opportunities.

Finally, the researchers wanted to know whether the failures triggered any learning and, if they did, at what level the learning occurred. Repeating the same mistakes suggests that there was no learning from the failures. The researchers investigated the reasons for this.

Table 1 summarises the research design.

**TABLE 1:** Research design components based on the design description of Yin†.

| Component                                  | Description   |
|--|---|
| Research question or problem               | What are the relationships between successive failures and failure preconditions, failure causes, the entrepreneurial process and learning from failure?  |
| Propositions‡                              | <ol style="list-style-type: none"> <li>1. The causes and preconditions for all the failures were the same.</li> <li>2. Failure in one venture triggers the entrepreneurial process leading to starting the next venture.</li> <li>3. If the same causes occur in consecutive failures, the entrepreneur did not learn.</li> </ol> |
| Unit of analysis                           | Primary – successive failures.<br>Secondary – repeat entrepreneurship.<br>Tertiary – learning from failure.   |
| Logic linking the data to the propositions | One entrepreneur who experienced failures provides a unique opportunity to identify and explain the relationships and simultaneously to eliminate the variation that would occur if the researchers investigated different entrepreneurs.   |
| Criteria for interpreting the findings     | Similarities in preconditions and causes of failure.<br>Triggers for engaging in the next entrepreneurial process.<br>The entrepreneur repeats the same mistakes.   |

†, Yin, R.K. (2003). *Case study research. Designs and methods: Applied social research methods*. (3rd edn.). Series Volume 5. London: Sage Publications.

‡, The propositions the researchers set to structure the research process and support the research question.

### Key scientific beliefs

To answer these questions, the researchers were aware of their own methodological values, beliefs and philosophical assumptions. These assumptions could influence how they conducted the research and stated them in order to understand the 'intellectual climate' in which they conducted the research.

### Ontological positions

These state the researchers' views and the very nature and essence of research reality. Researcher A is an objective realist who believes that knowledge comes from facts associated with the case and the context. If the researcher found repeated preconditions, causes and responses, he could generalise them. His interest was mainly business failure.

Researcher B is a constructionist idealist who believes that people cannot understand failure unless they have experienced it themselves. People's views, actions, reactions, interactions, social relations, social and cultural practices, rules and values reflect their experiences. Therefore, understanding the subjective experiences and interpretations may uncover unknown relationships and lead to improved insights of the experienced reality. Her interest was mainly on the cognitive aspects of the failures.

The personal experiences of the entrepreneur and his interpretations of the different contexts of each failure were interesting. The entrepreneur shared his experiences willingly and responded openly to all the questions the researchers asked during the interviews.

### Epistemological positions

The theory of knowledge (epistemology) of the researchers diverged to some extent. It allowed for interplay on how one can discover decisions about social phenomena and how one can demonstrate knowledge.

Researcher A worked primarily from a scientific paradigm, particularly in the primary stages. However, he changed during the process to a consultant paradigm. He had experienced a business failure himself and had worked as a strategy and turnaround consultant. This influenced his search for factual directives, patterns and answers to correct future situations of a similar nature.

Researcher B worked from an academic learning paradigm and looked for what one can learn and how one learns to use it to train entrepreneurs. Therefore, the authors chose several unstructured data-gathering methods to capture the activities and experiences of the case.

### Case study as a research strategy

The researchers used a single case study to explain the phenomena in a real world context where the boundaries between phenomena and context are not clear. Yin (2003) suggests that the uniqueness of a situation is a sufficient rationale for using a single case.

The specific case the researchers investigated is unique because entrepreneurs do not readily talk about failure. It was an important breakthrough to identify one entrepreneur, with successive failures, who was willing to participate in the research. A single subject eliminated the variation that originates from the entrepreneur compared to investigating the failures of several entrepreneurs.

The reasoning the researchers used was mostly inductive to explore the subject's experiences during the different events. The researchers gave a shortened version of the specific and salient circumstances and key issues of the different failed ventures because the detailed version is too long.

## Research method

### Research setting

The researchers investigated six previous and one current venture (the seventh and current venture is experiencing distress).

One entrepreneur experienced the successive failures (four failures, one forced exit and one failed harvest) over 20 years. The researchers identified these successive failures for research.

Initially the entrepreneur recounted the four failures as case studies and highlighted the relevant issues from a skills perspective. The entrepreneur was an entrepreneurship postgraduate at the time and wrote his own interpretation of the failures. He related them to the entrepreneurial processes he pursued and focused on skills for operating the different ventures. In addition, 20 years is a long time and one should consider possible memory lapses about some details relevant to the different ventures.

### Case background and setting – In the language of the entrepreneur

Whilst working in a full-time job, Mr X (the entrepreneur) bought the distribution rights to a product as his first business venture (ABC Company). A third party and legal owner of the rights sued him because he had no legal licence or agreement to sell the product!

Investigation showed that the 'original seller' of the business rights was a 'fraud' and Mr X lost his whole investment

shortly after start-up. Whilst his start-up appeared successful, he had to terminate the venture immediately. This forced him (by his own account) to leave his full-time job and he turned to insurance broking to recover the debt from the lost investment.

He soon became solvent and a new opportunity 'pursued' him in the low-cost housing industry. Figure 1 shows a sequence map of the failure events and ventures the entrepreneur pursued.

He started a venture with two other people ('Building Company') to build houses on contract for large developers. He operated mainly as financier (investor) whilst the other partners did most of the work as their 'contributions'.

Soon the venture entered a rapid growth phase and the immediate future appeared positive. Verbal agreements concluded all the operations. Every time he asked about progress, on his weekly site visits, he received figures and saw houses that showed progress.

However, news soon reached him about his partners' sudden wealth and alternative building projects. This seemed odd because he was the sole guarantor of supplier accounts. Investigation revealed serious pilfering of stock and movements of raw materials to the partners' private ventures, which their wives owned. He immediately withdrew all his cash and guarantees and chose to liquidate 'Building Company'.

Together with the construction venture (Building Company), Mr X had already started and operated a small butchery (Butchery 1) 'on the side'. It was doing well but, because of the associated insolvency, the butchery was 'trapped' in the liquidation process and liquidated at the same time as 'Building Company'. Therefore, Butchery 1 failed indirectly because of its association with the previous venture. Fortunately, Mr X was still involved with the brokerage and could survive financially.

Mr X's next venture was to convert a second butchery (Butchery 2) into a one-stop food retailing shop. The butchery was merely the entry point that he expanded. He operated the shop for several years and sold it to an employee with a payment plan that would give him a consistent income for the next few years. Mr X went on forced leave (because of illness) and, after recovering, he opened a high-class restaurant.

The restaurant started well but turnover declined (because interest apparently diminished) and he supported it financially with the income from the food retailing shop he had sold previously. Unfortunately, the new owner of that venture stripped it of cash and overextended it with loans within a short period. It soon failed, causing the income to Mr X to dry up. He had to sell the restaurant because he was liable for the new debts of the food-retailing venture – he had never cancelled his guarantees! He returned to insurance broking.

Soon afterwards, he responded to an advertisement for a free butchery business if he took over the debt. However, he suggested a joint venture (Butchery 3) to the previous owner of the insolvent butchery. They formed a partnership and quickly turned it around after quadrupling growth within a year. Before long, they started a small meat-processing plant as an extension.

However, relations soured and the partners split up. It left Mr X with the start-up processing plant and a secondary small outlet (a satellite shop) that he had established in the meantime, whilst the partner walked away with the turned around 'Butchery 3'. Yet again, there were no formal agreements in place to protect Mr X.

During his last ventures, personal illness (cancer) also confronted Mr X. It was an external factor to some of the contexts relevant to this study. He sold the retail outlet mainly because of this illness and took time off to recover.

### Entrée and establishing researcher roles

The researchers approached the subject (respondent) after he entered university for further studies and he willingly agreed to participate in the research process. The two researchers, each with their own ways of investigating and questioning, participated in the process.

Both researchers gathered their own field notes during the interviews. The notes led to some interaction between the two researchers' paradigms. This interaction of paradigms emphasised the value of the supplementary and complementary character of the two ontological positions.

They investigated each failed venture separately and in sequence to explore the inter-relationships between consecutive ventures. The case studies that Mr X wrote focused on what and how things happened (descriptive),

whilst the researchers focused on how and why things happened as they did (explanatory).

### Sampling

The researchers approached one entrepreneur, who had failed six times in 20 years and who was experiencing distress in his current business, to participate in the research.

The unique circumstances of the case played an important role in selecting him to participate. They could eliminate differences in entrepreneur contribution, because of variation, by using only one subject. The successive failures over 20 years make the study rich in information and allow in-depth analysis.

### Data collection methods

The phenomena the researchers investigated involved the entrepreneur, his thinking, experiences and decision-making on the one hand and the failures of the ventures, with their specific contexts, on the other (see Table 1). Therefore, the boundaries between the entrepreneur and the venture contexts were not clear. This meant that the researchers had to pursue several sources of evidence to find convergence.

However, because the failures happened over 20 years, there was no access to documents, direct observation, archival records or participant observation (Yin, 2003) to access the evidence. Therefore, the researchers explored the main source of evidence (the entrepreneur).

Firstly, the narratives the entrepreneur wrote were important to understanding the factual aspects of the ventures and the sequences of moving from one venture to the next. They also contained the entrepreneur's own interpretations of the preconditions of each case and the causes associated with each failure.

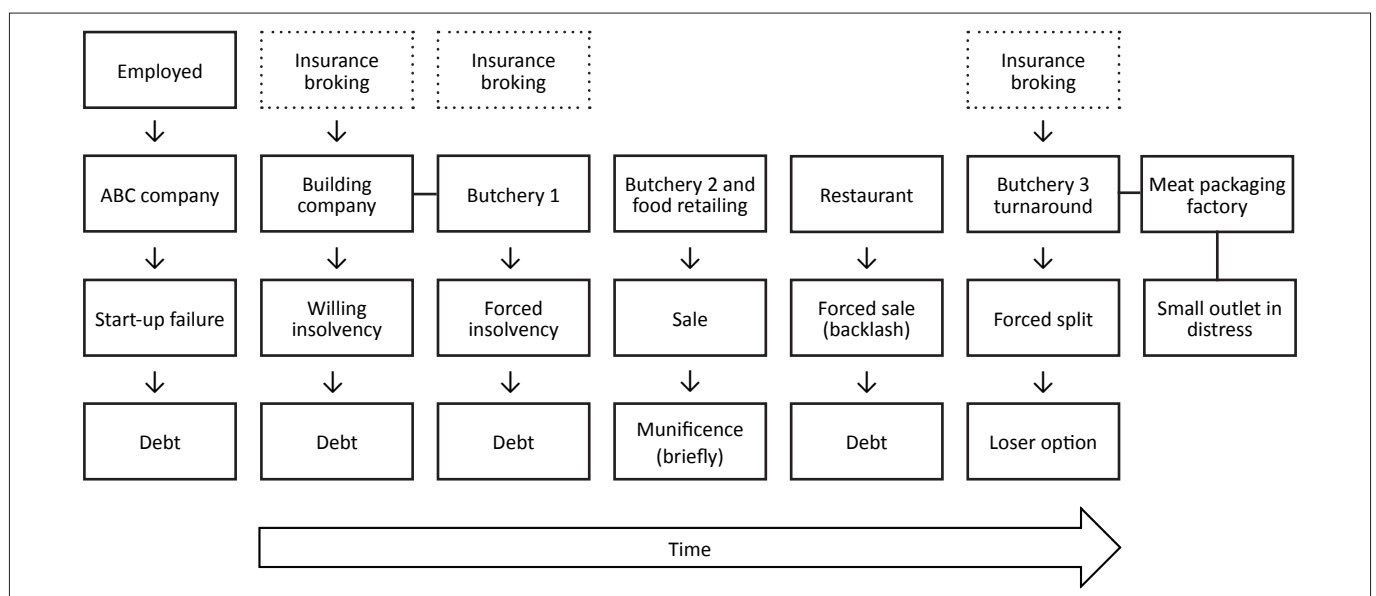


FIGURE 1: Sequence map of events and ventures pursued during the successive failures of one entrepreneur.



Secondly, after the researchers held the in-depth interviews, they used the interview notes and interpretations to make sense of them. The interview protocols for each venture failure included:

1. Tell the story of this specific venture.
2. What was your role?
3. Who else was involved?
4. When did you realise there was something wrong?
5. How did you confirm it?
6. What did you do once you realised what was going on?
7. Were you involved in other 'things' (projects or ventures) at the time?
8. What were you thinking at the time?
9. What were the contextual factors you considered?
10. Did you experience any grief for the failed venture?
11. What was the nature of your reflection on the case?
12. What learning did you take from the case?
13. When did you realise this learning?

The researchers could probe for explanations about the answers the respondent gave throughout the interviews.

Finally, the researchers tape-recorded the in-depth interviews and produced full transcripts. The authors individually and separately used these by searching for key issues, insights, similarities and anomalies together with their own field notes. Once they had identified the issues, they coded them. See Table 2.

### Data analysis

Though there was only one source of evidence (the entrepreneur), the researchers used 'investigator triangulation' (Yin, 2003, p. 98) to extract as much richness as possible. Through the many views of the evidence, specifically those of the entrepreneur's own version of his experiences, each failed case evaluation, in-depth interview notes, the transcripts of the interviews and checking the interpretations, the researchers identified and recorded aspects relevant to the research propositions. They mapped the processes of start-ups and failures to understand sequences, events, effects, relations, causation, outcomes and timelines. Figure 1 shows the sequence of events in a directional map. It shows the ventures, how they failed and their consequences.

### Strategies employed to ensure quality data

As there was only one source of evidence, the researchers firstly used investigator triangulation. They checked during the second-round and third-round interviews. Here they asked the entrepreneur, as the key informant, to judge the researchers' interpretations of the different issues. As this was an explanatory study, these interviews focused on why things happened as the entrepreneur described them, thus using 'explanation building' to improve internal validity (Yin, 2003, p. 34).

### Reporting the findings

The researchers reported the findings by stating the key observations and responding to the research propositions

individually. The style was explanatory, aiming to describe the relationships and finding support (or its lack) for the propositions (see Table 1).

The case findings show that consecutive venture failures had similar preconditions and causes that failure does not trigger the entrepreneurial process and that learning from failure is not automatic. The next section reports the findings under the proposition headings that the researchers set.

## Findings

The first research objective was to describe the relationships between the failure preconditions, the causes of failure, the entrepreneurial process and learning from failure. The second research objective was to describe the process and prerequisites for learning from failure.

### Findings linked to Proposition 1: The preconditions and causes of successive failures were the same

The detailed analysis of preconditions and causes yielded some interesting but salient similarities pertaining to the preconditions associated with each failure.

Firstly, the entrepreneur made several verbal agreements without formalising any of them. During interviews, he would say 'my word is my word' and 'I expect other people to do or be the same'. He formed partnerships easily without drawing up any proper legal contracts and acknowledged that he did so despite the warnings of friends and advisors.

On three of the occasions, he was 'ripped off' by people (partners or employees) he trusted, and who were supposed to be accountable for different roles in terms of their verbal agreements.

In the construction venture, he willingly delegated all the purchasing responsibilities to the partners. In the retail outlet, he gave the bookkeeper and his son full control over financial reporting and purchasing respectively. In the turned-around butchery, the same situation prevailed (verbal agreement and partner not keeping to it).

After reflection, he suggested that he had a trusting personality because of his upbringing, religious nature and deep ethical beliefs.

Table 2 shows the key elements that emerged during the analysis to support these points. There are clear patterns – especially those of trust, control and formal evaluation.

Secondly, the entrepreneur exercised no control. This is consistent with his trusting nature. In all the cases, the entrepreneur showed a low propensity for control (especially financial), keeping records and measuring performance.

After selling the retail outlet to his employee, he attempted to protect himself with an extensive legal contract. However, he

did not follow this up and did not control the financial status of the venture he sold, for which he had signed guarantees and which he never cancelled. When he realised his mistakes and reacted, it was too late to recover his financial losses.

Whilst he appeared creative and good at pleasing clients, he was poor at budgeting and measuring performance. He made no apparent attempt to ensure that he knew the operational details and key controls of the ventures. Looking back, the entrepreneur himself suggested that, because he did not measure the performance of partners and employees, he tolerated incompetence and destructive behaviour. On occasions when he acted in these situations and controlled the operations himself, there were often significant improvements, as was the case with the turnaround of the butchery when he first entered it. However, these did not last for long, as his natural tendency was toward *laissez-faire* management.

A third important observation was that, in all of the ventures that failed, the entrepreneur had no previous experience or knowledge of the industry. There were many cases of paying dearly (in what he called 'school fees') for making elementary mistakes before succeeding because of this shortcoming.

When he started the restaurant, the entrepreneur had several misconceptions about the requirements of this industry because he referred to his 'believed knowledge' of demand that he based on his regular patronage of restaurants during the previous months (because of his affluent life style). Core to the failure of the restaurant was establishing an up-market restaurant in a low-income neighbourhood. This led to him committing overestimation bias, which Le Roux, Pretorius and Millard (2006) identified as a typical entrepreneurial misconception.

Finally, the entrepreneur showed some of the 'bullfrog' attitude, suggesting arrogance and a high illusion of control bias. During interviews Mr X said, 'I could make it work despite ...' This revealed the perception that he was in charge. The effect of the income from his insurance broking on the apparent financial munificence of the entrepreneur contributed to his illusion that he was in control of everything he touched.

Both the high-trust and low-control aspects suggested preconditions ideal for the unethical behaviour of his

associates. In retrospect, they contributed to the eventual failures. In two cases, the effects of pilfering were visible only after external factors forced the businesses into negative cash flow. This made the entrepreneur feel what he termed the 'cash pinch' and forced him to investigate.

Therefore, the researchers found enough support for the proposition that there were similar causes and preconditions for the successive failures (see Table 2).

### Findings linked to Proposition 2: Failure in one venture triggers the entrepreneurial process leading to starting the next venture

To judge the 'repeat entrepreneurship' proposition meaningfully, the researchers used the entrepreneurial process to ensure that they covered identifying, evaluating and exploiting new opportunities.

The entrepreneurial process consists of identifying opportunities, evaluating their attractiveness and exploiting opportunities that are enticing enough (Krueger, 2005). In the case study, the entrepreneur recalled a mixture of himself looking for opportunities and having opportunities seek him. It seems that his personal resource munificence made him a sought-after capital provider of opportunities for others. However, once or twice (by his own admission) he had no choice. 'I had to do it, there were no other options at the time,' he stated.

#### Identifying opportunity

All the entrepreneur's new venture ideas originated whilst he was involved in an existing one, except for the restaurant that he started after recovering from illness. 'I always thought I could start again', he often repeated in the interviews. This suggested that he considered many opportunities and that he saw risk as unimportant.

It had become clear that the failures were not the triggers for identifying opportunities for the ventures that followed. In five cases (with the exception of the first venture and the restaurant), the entrepreneur was already considering or pursuing new opportunities before the current ventures failed.

Therefore, the researchers found little support for Proposition 2 that failure in one venture triggers starting the next. It also became clear that the opportunities the entrepreneur

**TABLE 2:** Salient issues identified during the successive failures of ventures.

| Causes and preconditions | ABC company | Building company | Butchery 1 | Butchery 2 and food retailing | Restaurant | Butchery 3 turnaround | Meat packaging |
|--------------------------|-------------|------------------|------------|-------------------------------|------------|-----------------------|----------------|
| Trusting nature          | Yes         | Yes              | Yes        | Yes                           | Yes        | Yes                   | Yes            |
| Management control       | No          | No               | No         | No                            | No         | Partly                | Yes            |
| Industry experience      | No          | No               | No         | No                            | No         | Partly                | Partly         |
| Formal evaluation        | No          | No               | No         | No                            | No         | No                    | Basic          |
| Business planning        | No          | No               | No         | No                            | No         | No                    | Basic          |
| Illusion of control      | Yes         | Yes              | -          | Yes                           | Yes        | Yes                   | Yes            |
| Tolerating incompetence  | -           | -                | -          | Yes                           | Yes        | Yes                   | -              |
| Intertwined resources    | No          | Yes              | Yes        | Yes                           | Yes        | Partly                | Partly         |
| Novice prototypes        | Yes         | Yes              | Yes        | Yes                           | Yes        | Partly                | Yes            |

pursued were only some of a multitude of opportunities he considered along the way.

### Evaluating opportunity

The researchers could find no evidence that the entrepreneur had evaluated the new (and existing) opportunities properly. He had never developed business plans and budgeting was almost nonexistent. 'I knew it could work' and 'the idea was good' were his common expressions.

The entrepreneur made all his decisions without any formal planning or business plans. This also suggests that he depended largely on intuition (*'gut feel'*, in his words) when making decisions. Baron and Ensley (2006, p. 1339) suggest that novice entrepreneurs 'use different prototypes' compared to experienced entrepreneurs. They rely on intuition rather than factors like the revenue, cash and risk projections associated with the prototypes of expert entrepreneurs. Mr X appeared to use novice prototypes mainly to evaluate opportunities.

### Exploiting opportunity

The entrepreneur exploited most opportunities shortly after identifying them and without evaluating them properly. He often based his decisions on intuition. Common expressions he used during the interviews included *'I decided, and just did it'* or *'it felt right at the time so I did it'*. Some financial pressure moderated these decisions where he felt forced to pursue a specific opportunity (like leaving his first job to pursue insurance broking or selling the restaurant).

However, the entrepreneur also showed an interesting ability to overcome the liability of newness because he was always able to muster resources and support from external people (private investors) and institutions, like banks and suppliers, for the next start-up. The researchers could not explain how this was possible without proper business plans. However, it may be because he always repaid everyone to whom he was indebted.

### Findings linked to Proposition 3: If the same causes occur in consecutive failures, the entrepreneur did not learn

If repeat entrepreneurs are to learn from their mistakes, there needs to be a soul-searching experience, a conscious reflection about what has happened and why it happened. In the case analysis it was clear that Mr X (by own admission) did not use the dual processes (Shepherd, 2003, p. 318) of loss and restoration orientation to learn from the experience.

During each failure, he was already busy with the next opportunity. He did not take time to do deliberate soul-searching, ask questions and reflect on the events. The entrepreneur confirmed that, on most occasions, he just pursued new directions and opportunities without really reflecting on past failures whilst they were happening or after they had happened.

When asked whether he experienced any of the emotions associated with the grieving process, he thought he did not, except for one venture when he experienced some grief. This was the butchery he started and lost because of the repercussions of the construction company failure. He could not give any specific reason for singling out this venture. The grief process or coming to terms (grief recovery) with the failed ventures did not precede going into new ventures (restoration orientation).

The entrepreneur reported that, when he wrote the case studies, it was the first time that he intentionally and deeply reflected on the failures to gain some understanding of them. This confirms Shepherd's (2003, p. 319) argument that 'learning from failure is not automatic or instantaneous' but requires a deliberate process of reflection. During the interviews, and whilst being prompted by the questions, he reported alternative insights on matters that he had originally not considered.

## Discussion

There was support for the propositions that there were similar causes and preconditions for the successive failures and that the failures were not the triggers for identifying opportunities for ensuing ventures. Finally, it appeared that the entrepreneur only learned once he undertook deliberate reflection. This section expands on these findings. It reveals some key observations about the entrepreneur, the preconditions and causes associated with his successive failures.

Firstly, he trusted partners and employees blindly. It meant that he used virtually no control mechanisms and eventually led to huge losses. Secondly, the entrepreneur often entered industries without any experience of them. He usually did so without any formal evaluation of the feasibility of the opportunities and without business plans. He depended largely on intuition for his evaluations. Thirdly, he showed illusions of control bias. He believed that *'he could make it work'* and had control over all factors. Fourthly, he tolerated incompetence. Fifthly, he confirmed the risk of interweaving venture resources (mainly finance). Other ventures highlighted their *'domino effect'* once one of them experienced distress. Finally, the entrepreneur displayed the prototype associated with novice entrepreneurs repeatedly. This section explores each of these.

The specific preconditions and causes of failures appeared to differ superficially from venture to venture. Nevertheless, some salient similarities might be common contributing antecedents for the failures. Compared with causes and preconditions from the literature, these related mainly to the entrepreneur's human qualities.

Krueger's (2007, p. 124) suggestion that 'anchoring beliefs drive cognitive structures' of entrepreneurs and lead to the actions they take could explain his blind trust in partners. This influenced his decisions repeatedly. Mr X

also acknowledged his over-trusting nature but hoped to overcome it by introducing control systems and expanding his advisor network.

Entering industries without proper knowledge, weak evaluations of the opportunities and over-trusting one's intuition only are actions typically associated with novice entrepreneurs (Baron & Ensley, 2006). However, the entrepreneur started to specialise in the meat retail and processing industries in his later ventures. This suggests that he had gained some relevant experience. Nevertheless, he continued to ignore proper evaluation and sufficient control, continued to trust his intuition and to use novice prototypes. It is interesting that Mr X suffered less from the liability of newness because he was always able to find resources from other sources.

The researchers could find no indication that any of the failures triggered the next opportunity because, in every case, the entrepreneur was already busy with the next venture whilst the preceding venture was failing. This suggests that the entrepreneur knew that failure was imminent, triggering an urge to pursue new opportunities. In addition, the involvement with the next venture did not seem to cause the failures, although there must have been some indirect effects like focus, management and time allocated to the new venture at that stage of the process.

His report that he never really reflected on the underlying causes of the failures is important. The entrepreneur only reported learning from failure through reflection when he wrote up the detailed cases for his dissertation and when the researchers confronted him during the interviews. He reported going back to his current business and specifically introducing new control systems because he thought this had been the main cause of his past failures. 'Not grieving for his losses and immediately pursuing new opportunities' confirms Shepherd's (2003, p. 320) postulation that repeating the same mistakes may occur.

There is some doubt about whether one can regard some of the ventures (the first butchery and the meat retailer shop) as genuine failures or as closures because of external factors and as the repercussions of other failures. The entrepreneur attributed those failures to external causes.

However, final attribution was not the main concern. This case confirms that using the resources of one venture for setting up the next is risky, despite it being an avenue for obtaining resources for business growth.

The study begins to pave the way for exploring the prototypes (mental frameworks) of entrepreneurs who experience successive failures because it challenges the role of failure in the repeat entrepreneurial process.

Failure is beneficial only if learning from it is possible. However, 'learning is not automatic' (Shepherd, 2003, p. 322) and 'requires reflection' (Cope, 2003, p. 430) at a personal level.

Secondly, it confirms the principle that every failure has unique preconditions that one should consider for learning.

Finally, transforming the experiences into entrepreneurial knowledge occurred mainly because of exploration rather than exploitation in the transformation process (Politis, 2005). The dominant logic of reasoning, which moderated the transformation process, appeared to be effectuation rather than causation, but further investigation into these relationships is required.

The managerial implications of this study are twofold.

Firstly, it confirms that failure is a part of entrepreneurial endeavours. One should acknowledge this and that learning from it requires deliberate reflection.

Secondly, failure does not necessarily 'trigger' the next venture. However, failure could help entrepreneurs to gain experience and to learn from it. Therefore, deliberate reflection is an important step in learning from failure. The researchers found this absent from the behaviour of the entrepreneur. Business educators should realise the opportunity for learning from failures. Failure case studies lend themselves to this purpose (Forbes & Pavone, 2006).

Finally, an additional observation from the researchers is noteworthy. This is that they presented the provisional findings of this research to several (and different) entrepreneurship conference audiences and entrepreneur groups over a period of three years. The responses ranged from utter disbelief at one end of the continuum to acknowledgement and confirmation of similar experiences from some at the other.

The findings resonated well with both entrepreneurs and academics during these presentations. It seemed that, if they had not failed themselves, they knew someone who had.

The effect of these responses was almost as if the research had received face validity as a truthful description of the reality.

### Limitations and future research

To generalise using the results of one repeat entrepreneur is inappropriate. However, the case study spans 20 years. Its richness confirms the complexity of the entrepreneurial process, the context in which entrepreneurs operate (Gartner, Davidsson & Zahra, 2006) and the context of failure. Future research should attempt to replicate the study with more subjects to generalise and confirm these findings.

Secondly, the qualitative nature of the data is subject to the perceptions and interpretations of the researchers and their research interests, despite all their attempts to be objective. Further research should focus on ensuring the quality of data collection by expanding the research strategy to include several cases.



Thirdly, the absence of documents, artefacts, observation and other participants meant that the interpretation depended on one source only. Over a period of 20 years, lapses in memory and recall as well as the tendency to rationalise past decisions may have been significant. One should see the findings in this context.

Although the researchers could not generalise from the failures of one entrepreneur, they did identify some interesting directives for further research.

Although they could find no relationship between failures as a trigger (or cause) for pursuing the next opportunity, the possibility that a new opportunity might cause or contribute to the failure of the preceding venture deserves more attention. It is possible that the entrepreneur's tacit knowledge intuitively warned him about pending failure at a very early stage and he acted accordingly (by pursuing the next venture).

Future researchers should attempt to confirm this proposition.

## Acknowledgements

The authors are indebted to the entrepreneur who participated at extensive personal risk. They presented the first results at the Babson BKERC conference in Madrid in 2007.

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