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WHY AN ENTREPRENEUR NEEDS THREE FAILURES BEFORE SUCCESS

- ENTREPRENEURIAL LEARNING AFTER FAILURE

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### Abstract
This thesis aims to give an understanding of what is behind a failure in a startup industry. To understand why failures are needed for a success, the serial entrepreneur process has to be clarified at an individual level. In the failure process, under analysis are the main phases of turning a failure into a success and the outcomes which should be used as the next venture foundations. This study also aims to give basic tools for entrepreneurial learning on how to proceed after a failure at a personal level so that the entrepreneurs would be able start a new venture having a positive experience from the last failure.

The study begins with a literature review in which concepts of entrepreneurial learning and theoretical failure process model are presented. This created model is then tested in the empirical part. The method used in this study is done as a deductive approach using exploratory research design with a cross-sectional study method to collect and analyze qualitative data. The data in the empirical part has been collected with face-to-face and telephone interviews with professional serial entrepreneurs.

The theoretical failure process model created in the literature review part was successfully tested in the empirical part. This process model could be used as the first step in any failure analyses as a tool for an entrepreneur or a manager. Going forward is much easier after analyzing the true reasons behind a failure. Finding root causes for a failure has provided learnings which are key tools for the future.

The scientific results of this study show that every entrepreneur that was interviewed has had multiple setbacks as failures during their career. However, they have managed to separate their professional and private lives so that if and when a failure has happened, financial, social and physical costs have been less significant. When these negative costs have been minimal ones, the entrepreneurs have had no or only minor grief before being able to analyze true reasons behind a failure and gaining learnings for the next venture. Learning from past failures, they have been able to avoid similar mistakes happening again. Furthermore, low grief has allowed for the recovery time from failures to reduce significantly.

The main managerial finding was that internal motivation is one of the root causes behind the entrepreneur having strength and motivation to continue despite failures. The internal motivation for their actions follows every step from starting a venture to failure analyses, all the way to learning and continuing to the next venture. In some cases, when that motivation was lost, even partly, entrepreneurs were noted to exit from that venture.

The purpose of this study was to give understanding of why a failure should be accepted as a natural and sometimes needed, but not wanted, step for learning in a long perspective. The purpose was not to give detailed tools for every reasons behind failure, but this work will rather provide basic tools on how to proceed if a failure happens. If the failure acceptance was wider, the outcome would be beneficial on three different levels. To understand the reasons behind needing failures for success, we need to focus on the entrepreneur’s failure process at an individual level. After understanding that, the process can be scaled up to company and further to community levels.

### Keywords
Entrepreneurial Learning, Failure Process, Entrepreneurship, Start-Up

### Additional information
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1 INTRODUCTION

Finnish economy is at the crisis. At the moment, at the beginning of the year 2016, people can read from daily medial articles, how nation’s economical situation should be changed very fast to maintain our competitiveness in global markets. Old traditional companies are struggling as they lack capabilities to fit their strategies fast enough to quickly changing global market needs. Political and labor situations are challenging when international companies are investing and moving their production outside national borders. Furthermore, unemployment rate has remained at a high level and new direct investments have been at a very low level for years. There is ongoing debate whether entrepreneurship could be one of the keys to unlock the current situation and to lead the country out of the poor economical state. Such companies are encouraged to aim international instead of staying at the domestic markets.

In academic literature, it has been acknowledged that companies which aim international have had better chances at survival (Puig, González-Loureiro and Ghauri 2014, Sleuwaegen & Onkelinx 2014). It is also widely acknowledged that through international markets a company is able to gain new markets and resources, which could be limited or more costly in domestic markets (Johanson & Vahlne 1977, Oviatt & McDougall 1994). Rapid internationalization companies have noted to have higher failure rate (Amburgey, Kelly and Barnett 1993, Sleuwaegen & Onkelinx 2014). Academic literature has focused and analyzed the positive sides, company success and factors for that success for decades, despite the fact that failure has been a far more common event than success (e.g. Singh, Corner and Pavlovich 2007). When failure has occurred, typically a bankruptcy of a major company, the focus has been on explaining reasons behind the failure. However, critical project termination choices are based on incomplete information of that moment, as it is impossible to know everything and predict the future correctly (Johansson 2010). This has led to reasoning whether or not those termination choices were correct ones as well as also challenging management skills for making right choices at all. Media in particular has focused on finding the “bad guy”, the responsible person for a failure. What happens after the failure has had no media interest.
1.1 Goal of the Research and the Research Problem

This work is aiming to give tools for entrepreneurship on how to proceed after a failure at personal level. Entrepreneurs should be able start a new venture with a positive experience from last failure. Positive attitude, hunger and adequate failure analyses from the past have been recognized to be important features when e.g. serial entrepreneur is seeking new funding for the next big thing (Cope, Cave and Eccles 2004, Wright, Robbie and Ennew 1997b). This indicates that if the grief from past failure is not fully overcome and the failure analyses have not been thoroughly done, funding the next company could be more difficult as entrepreneur is still grieving from previous failures (Haapala 2015).

Discussion about startup industry has gradually risen in Finland after 2008-2009 depression and especially after Nokia restructuring and mobile business sales to the Microsoft Corporation. In Finland the Start-up conception and the business is quite smallish and undeveloped as Sipola has showed and compared it to Israel or the Silicon Valley (Sipola 2015). However, by doing things the right way patiently will eventually lead to proper results. In Finnish country level, there has been relative low discussion about what startup business skills and needs are, and even less when discussion is at a city level. There is a saying “In the USA, for a successful entrepreneur, he (or she) has to have experienced minimum three failures”, and a domestic continuation to that expression is that “it does not work in Finland”. This indicates that the meaning of the failure has not been fully understood and that first expression has been used in a vacuum, without looking deeper into consequences and learnings from it. Further, thorough explaining cannot easily be done with one sentence, therefore the main community has not fully understood the true meaning of the expression.

To my understanding, tradition in Finland is to hide entrepreneurial failure. In more mature entrepreneurial cultures the stigma of failure is smaller and different e.g. in Israel or in the Silicon Valley. Sipola (2015) has showed that culture, historical and institution explain how these nations differ and that these three aspects have a major impact on how entrepreneurial blocs interact and what is needed in all levels. This paper will focus on Finnish environment in the area where failure has already happened. Ongoing national trend is to highlight and courage people towards
entrepreneurial activities. For a holistic view if failure learning part will be neglected, it will impede wider acceptance towards entrepreneurial activities in Finland.

1.2 Research Gap and Significance of This Study

Academic literature research on entrepreneurship has focused on great extent on the success and its factors (Cope 2011, Singh et al. 2007, Singh 2011). Company success factors and failure reasons have been studied over one hundred years but until recently, failure’s impact on an individual level i.e. what happens after a failure has not been studied globally. During the last 10-15 years interest in the research of entrepreneurial failure has increased (Ucbasaran, Shepherd, Lockett and Lyon 2013). Cardon with her colleges presented a schematic procedure how a business failure should be divided into smaller pieces which could then be more easily analyzed (Cardon, Stevens and Potter 2011). A resent doctoral thesis is focused on the grief after a failure, there with a local culture is e.g. highlighting religious beliefs to be one explanation for a failure (Singh 2011). However that result is likely due to the fact that persons for that study were voluntarily asked by local church (Singh 2011:84). Singh thesis has been influenced by and is limited on a local culture and the culture in New Zealand is rather distant in Finnish perspective.

This study aims to give an understanding of what is behind a failure in a startup industry. To understand why failures are needed for a success, firstly the serial entrepreneur process has to be clarified at an individual level. In the failure process, what are the main phases how to turn failure into a success and what failure outcomes should be used as the next venture foundations. This study will give understanding of why a failure should be accepted as a natural and sometimes needed but not wanted step for learning in a long perspective. If the failure acceptance was wider, the outcome would be beneficial in three different levels. (1) For an entrepreneur, bouncing back after a failure to the next venture would be easier and faster, cost of a failure could be more bearable and personal learning from a failure might be faster. (2) At a company level, especially at the high risk business sector, to finding the right company path is very challenging. The acceptance of controlled failures and learned lessons from those
failures might give needed dynamic flexibility and better survival. (3) At the community level, correct individual and venture experiences would give needed critical mass to desirable startup culture which would be beneficial also for larger economical scale.

1.3 Research Question

To understand the reasons why we need failures for success, we need to focus on entrepreneur failure process at individual level. After understanding that, the process can be scaled up to company and further to community levels. This work will focus on explaining at an individual level the failure process with the following research problem:

- How does an entrepreneur learn from failure?

Main research problem has been divided into two research questions:

- What impact did a failure have on an entrepreneur?
- How did failure learnings change the entrepreneur’s way of working?

Structure of this work starts with introduction to the topic. After introduction extensive literature review focuses on building the main theory and explaining two main theoretical parts: entrepreneurial learning and failure. After theoretical part, methodology used in this research is explained. Fourth part focuses on the analyses and results and last part focuses on conclusions and discussion of this work.
2 LITERATURE REVIEW

In this chapter the focus is on academic literature which describes theoretical part on the topic. The theoretical part starts with describing four general learning methods followed by the entrepreneurial learning. Then the focus is then shifted to the entrepreneurial failure and to the impact and recovery from failure. Lastly, theoretical summary is presented with a learning from business failure model suggestion.

2.1 Learning

Definition of learning has been widely accepted in academic literature as “a regular shift in behavior or knowledge informed by prior action” (e.g. Bingham & Davis 2012, Lewitt & March 1988, Miner, Bassof and Moorman 2001). In practice, this means that even if you have noticed that something is wrong, if you don’t change or correct your behavior, by the definition, learning has not happened. E.g. a student’s failed exam results in personal disappointment. If student analyzed reasons why failure happened and then corrected one’s own pattern prior the next exam, only then learning happens. It could be that this student found that the reading to the exam happened only at the last night before exam and it was not enough and the result was a failure. This student should have divided one’s reading into few days before the exam to have enough reading time. This last minute reading can be seen as the reason for failure, but if the student do not change one’s preparing pattern for the next exam, by the definition (as a shift in behavior) the learning has not happened.

Learning occurs in two conditions. The first learning is a result of a positive action, as a target is reached and chosen way is seen as a correct one. The second learning comes when a target has not been reached, that action can be understood as a failure, and corrective, new actions have been made to reach the target. Learning with a corrective action has two possible outcomes defined as a single- and a double-loop learning. The single-loop learning happens when a corrective action has been made without questioning why a target was not reached in the first place. The double-loop leaning happens when a corrective action is made by first examining reasons for failure and
changing the root cause of that event. These processes are illustrated in figure 1. (Argyris & Schön 1992:67-69.) A simple example for single loop learner is a student who continues reading only at the last night prior to the exam and a double loop learner is a student who has changed one’s own reading behavior as result of failure in exam.

![Figure 1 Single and double loop learning (adapted from Argyris & Schön 1992:68).](image)

If asking randomly picked adult where and how person’s own learning started and developed, most likely the answer is at school, perhaps followed by another school or schools before this person started to work. Similar path happens in entrepreneurial surrounding. Bagheri and Pihie (2010) are summarizing entrepreneurial learning based on literature review with two different stages, pre- and post-launching. Pre-launching stage is prior to entrepreneurial activities where persons learn needed skills for new venture creation and leadership (Erikson 2003, Heinonen & Poikkijoki 2006). This pre-education tries to prepare persons to meet the working environment with needed theoretical knowledge and competence for entrepreneurship especially with creativity and uncertainty (Duval-Couetil 2013, Fayolle, Gailly and Lassas-Clerc 2006, Plumly Jr, Marshall, Eastman, Iyer, Stanley and Boatwright 2008). Multiple examples are used for teaching how and what factors have made entrepreneurial success (e.g. Autio, Sapienza and Almeida 2000, Johanson & Vahlne 2009, Oviatt & McDougall 1994), but less is told about failures, what to avoid and why, even entrepreneurial failures are by far more common events (Singh et al. 2007). Failure as a part of an entrepreneurial teaching method has been recognized to give better understanding, more positive attitude and useful tools towards failure (Politís & Gabriëlsson 2009, Shepherd 2004).

After formal education comes post-launching stage, learning happens by doing different entrepreneurial activities and combining those activities on previous learned
knowledge and competence (Cope 2005, Corbett 2005, Corbett 2007, Erikson 2003, Minniti & Bygrave 2001, Politis 2005). A large amount of the entrepreneurial learning definitions are based on Kolb’s (1984) experiential learning model. Experiential learning model consists four cycles where learner moves from one stage to another stage as a cycle, starting from conceptualization and then moving through experimentation and experience stages ending to reflection stage. After reflection stage cycle starts from the beginning. (via Bagheri & Pihie 2010, Cope 2005, Pittaway & Cope 2007, Politis 2005.) However, this post-learning stage is not linear process from one stage after another, rather it adopts ongoing activities to theoretical models so that entrepreneurs are having multiple learning processes ongoing or they are used together in sequences (Bingham & Davis 2012, Miner et al. 2001). Bingham and Davis (2012) have outlined that learning happens in sequences both with direct and indirect learning processes. They also stated that learning processes might have both short and long term consequences (Bingham & Davis 2012: 618). Direct learning processes are named as trial-and-error, experimental and improvisational learnings and one indirect as vicarious learning process, these four common learning processes are described in following.

2.1.1 Trial and Error Learning

With Trial-and-error direct learning process a person or a company management takes actions and possibly change their organizational behaviors after seeing the results and outcomes from already completed actions (Bingham & Davis 2012, Haunschild & Sullivan 2002, Lewitt & March 1988). Similarly, more resources will be allocated based on successful previous actions, and such behaviors are continued, while with unsuccessful actions resource allocation will be re-evaluated and behavior could be changed (Van de Ven, Andrew H & Polley 1992). Trial and error learning can be seen as double loop learning if a person (or a company management) has changed his habits i.e. learned from completed actions. Venture failure can be seen as the most extreme and sometimes a very painful way of trial-and-error learning (Gibb 1997).
As trial-and-error leaning method may just as well be the most effective single learning method, relying only on this method might include a severe pitfall. For larger companies trial-and-error failures (including learning from them) can be managed more likely with their wider capital reserves, but, as for an entrepreneur a single trial-and-error failure could lead to the end of that company. Autio et al. (2000) mention that unlearning old way of doing is as important step of new learning. When an entrepreneur has learned a correct path to proceed with one’s business in one surrounding (i.e. domestic markets), that path might not be walkable in another surrounding (i.e. international business) and vice versa. As painful trial-and-error learnings are remembered in one’s mind very clearly, such persons are reluctant to step out of their comfort zone to start a new path in another surrounding: e.g. a company with reasonable domestic business will expand and start a new international business - a business which will most likely include more and new trial-and-errors failures. In a new environment, there is a small difference as these new surroundings might influence past learnings differently and trials could give different and new and sometimes unexpected results – and also new failures.

2.1.2 Experimental Learning

Direct Experimental learning process happens in controlled situations where companies test their hypothesis and both evaluate and create new knowledge e.g. new designs for a prototype, based on a test group prototype evaluation this prototype is modified accordingly (Bingham & Davis 2012, Miner et al. 2001). This experimental learning has noted to differ from trial and error learning as testing conditions are off line, pre-specified and planned (Miner et al. 2001). Experimental learning process is a low-cost, i.e. prototypes or focus groups are used to test for best solution, which enables companies to test large variety of solutions and reduces downstream and financial risks (Bingham & Davis 2012, Brown & Eisenhardt 1997).

A downside of focus groups is that a strong individual may silence other member voices and as interaction is part of the method, some minority opinions may stay hidden. A focus group facilitator should be experienced doing focus group studies as
facilitator’s instructions, guidance and data collecting are in great role for analyses. (Kitzinger 1995.) If some parts are not so carefully competed study results might be biased. Generated data can be numerical, quantitative, or non-numerical, qualitative and sometimes interpreting data may be challenging (Kitzinger 1995, Wilkinson 1998). Similarly, as prototypes are built typically e.g. based on ideas or meeting customer needs, if some part or parts in new product development stages are biased (e.g. interpreted results as wanted), neglected (e.g. skipped sales comments when defining needed product features) or missing (e.g. dropped off a too expensive feature), the end result may not meet the market needs and leads to expensive product failure (Krishnan & Ulrich 2001, Lehto, Harkonen, Haapasalo, Belt, Mottonen and Kuvaja 2011).

New knowledge from experimental testing is long lasting as the testing activity goal is long term learning (Miner et al. 2001) and these testing results and learnings can be adapted into company’s activities (Pisano 1994). As experimental testing is low-cost companies can utilize multiple tests for learning without fear of mistakes or financial difficulties (Bingham & Davis 2012).

2.1.3 Improvisational Learning

Improvisational learning as third direct learning process happens in real time situations. Companies learn to solve unexpected problems or find and catch new opportunities in the moment and learning happens simultaneously with the action (Miner et al. 2001, Weick 1998). This learning process differs from previous ones, in which previous knowledge and experience play an important role, with improvisational learning managers do not wait for results from past actions, instead both planning and decisions are made on-site i.e. goal in improvisational learning is activity and not knowledge, as is the situation with previous learning methods. (Bingham & Davis 2012, Miner et al. 2001.)

Negative side of improvisational learning method is the fact that the action is done on-site and little or no automatic reflection is done to those decisions as focus has been
on getting a problem solved fast or taking advantage of a specific opportunity. The impact of improvisational activity may be difficult to predict and therefore it might have unexpected and harmful results. (Miner et al. 2001.) Positive outcomes are often repeated and improvisational learning process can evolve in time to trial-and-error learning process. Improvisational learning might be seen in a long perspective as the first steps of trial and error learning. (Bingham & Davis 2012, Miner et al. 2001.)

2.1.4 Vicarious Learning

Indirect vicarious learning is a process where learning happens from others’ experience rather than as a result of one’s own actions. In addition, further activities change as a result of their competitor’s actions. Information is collected and outcomes of competitors are observed for decision makers so that successful competitor practices could be adopted (Bingham & Davis 2012, Denrell 2003, Kim & Miner 2007, Srinivasan, Haunschild and Grewal 2007). This learning process could have an important role in initial steps for a company, steps where companies can rely on other companies’ experiences to cover their own lack of understanding gap (Henisz & Delios 2001) especially with new industries and when uncertainty is high (Srinivasan et al. 2007). Negative side is that insufficient information might lead to shortcuts, which might have serious consequences. Collected information could be biased if the focus has only been on successful companies and neglected failure (Denrell 2003) or only partial as competitor information’s true causal links between actions and outcomes might not be visible for other companies (Kim & Miner 2007, Lane & Lubatkin 1998). Other negative impact could be that new or inexperienced companies might not be able to absorb all the needed information. Therefore gained knowledge might not be fully accessible (Henisz & Delios 2001, Lane & Lubatkin 1998).

Bingham and Davis (2012) observed that vicarious learning process has three forms. (1) Modelling effect is an imitation of competitor’s behavior, (2) inhibitory effect happens when company stops certain behavior after competitor’s negative behavior e.g. failure and (3) eliciting effect happens when company modifies competitor’s behavior. Study also showed that companies apply different learning processes
(mentioned above) in sequences. When a company management had earlier experience they relied more to it rather than external and indirect information. Companies that used first indirect learning performed in short term perspective weaker than companies using direct learning (experimental or improvisational learnings before trial-and-error learning) as these company leaders had little experience and less understanding of how to organize activities. Better short term success with direct approach is suggested to lead to management overconfidence over the time and due to that such companies are eliminating some additional learning processes. Such top management seemed to assume they already know how to do business and therefore they only needed their own wisdom. In long term perspective the situation was found to be opposite. With indirect approach companies’ weak short term performance resulted in the top management increasing the number of learning performances over the time and so top management did not become overconfident. Management’s own restrictions as experience or knowledge may seem as if more learning is needed for better understanding of how to act in forthcoming business situations. (Bingham & Davis 2012.)

2.1.5 Summary of Different Learning Models

As learning is defined as a shift in behavior or knowledge informed by prior action or experience (e.g. Bingham & Davis 2012, Lewitt & March 1988, Miner et al. 2001), learning can happen in different ways as described above. All learning methods involve reflective thinking and analyses of what has happened and why, followed by learning from that event. Preparing for an exam the night before is an example of trial-and-error learning method and how a student could help and improve one’s studies. Similarly, other learning methods would surely do the same, e.g. that same student hears from other students that last minute reading is not a good way of preparation for an exam. There is no rule which learning methods are the best, as the method used depends on the situation and on the person involved.

In a business surrounding without a proper pre-learning stage a novel entrepreneur would face several business pitfalls on the way to the success, leading to situations
where only the very strongest or the very luckiest persons would survive as a result of several trial-and-error steps. Falling and surviving from those pitfalls might be very costly and time consuming, as draining financial resources and errors could shake mental stability and person’s beliefs towards entrepreneurship. Such pitfalls could be avoided by combining different learning methods. In real life, person’s own cumulative experience and prior knowledge is hardly ever due to only one learning method and this is discussed more in the next entrepreneurial learning chapter.

2.1.6 Entrepreneurial Learning

Bingham and Davis (2012) studied learning with entrepreneurial companies during internationalization. They found that, in long term perspective, adopting more than one learning method (i.e. combining trial and error, experimental improvisational and vicarious learning methods) leads to better performance. Combining methods provides greater opportunities to learn and by improving the reliability of what has been learned. Several learning processes provide a greater pool of information from where data can be compared, leading to situations where any finding or conclusion carries more weight and is likely to be more convincing. Direct experimental and trial-and-error learning are time consuming and not so efficient processes; however, gained knowledge is high quality and hence it is likely to reduce the number of future mistakes. Indirect vicarious learning knowledge is generated by observing other’s actions and the conclusions might be missing some aspects therefore knowledge has lower quality and is less likely to reduce future mistakes. Relying only on one learning method might lead to lower performance in long term. Increased reliance only on trial-and-error learning process increases the likelihood of repeating past positive actions which might not be fitted to new situations. Critical examination of cause-effect and creation of new information are severely reduced when relying only on to trial-and-error learning. Performance has also found to be decreased as executives become more influenced by psychological tendency to point negative factors for external reasons. (Bingham & Davis 2012.)
Minniti and Bygrave (2001) have made a dynamic model of entrepreneurial learning. They say that an entrepreneur repeats most promising choices and discards failed ones. Entrepreneurial learning comes both from failure and success experiences, and the ability to succeed depends on their capacity to process information acquired from experience and what is learned from it. Entrepreneurial decisions may be systematically biased (external mentor might be needed to fix this bias). Learning process is dynamic where entrepreneur is learning from experience process, they are constantly updating their decisional algorithms and by doing so improving their performance and facing failures without losing enthusiasm. (Minniti & Bygrave 2001.)

Politis (2005) recognizes three main components of entrepreneurial learning: entrepreneurs’ career experience, the transformation process and entrepreneurial knowledge. Past experiences provide knowledge and they have most influence on the strategic choices in their companies and those choices then influence venture performance. Entrepreneurial knowledge means effectiveness in recognizing and acting on entrepreneurial opportunities and coping with liability of newness. (Politis 2005.)

Cope (2011) found out that besides venture failure learning, entrepreneur learns much about themselves, the nature of their networks, relationships and the “pressure points” of venture management. A failure lesson is powerful and valuable, as it can give entrepreneur to revitalized awareness of their abilities and broader knowledge base. (Cope 2011.) Similarly Singh’s (2011) research and discovery were focused much on the personal learning and growth of an entrepreneur after a business failure.

Steve Siebold has during the past 30 years interviewed over 1200 self-made billionaires (entrepreneurs), and in the process became a millionaire himself. These world’s wealthiest people have very different and various formal education levels (e.g. Steve Jobs drop out of college, Bill Gates and Mark Zuckerberg never finished University or Warren Buffet graduated from the Columbia Business School). Despite of that, these self-made millionaires have one common uniting feature. They all have continued studying and educating themselves by reading during their working history e.g. Warren Buffet has estimated that 80% of his working day is spent reading. With
this continuous learning they have educated themselves on how to become more successful. (Elkins 2015.)

As a summary, entrepreneurial learning involves different learning methods which are used continuously to reflect ongoing operations and to adapt accordingly. A serial entrepreneur is an entrepreneur who exits one venture before entering into a subsequent one (Hall 1995, Westhead & Wright 1998, Wright, Robbie and Ennew 1997a). Successful serial entrepreneurs have also continued learning throughout their working carriers thus improving both their own and their companies’ performances. During entrepreneurial carrier there has most likely been also some setbacks, like any person would have had. Turning these failures to sources of reflective learning and knowledge provides an opportunity to gain valuable experience which could be used further to make a difference. How to do that is discussed in the following chapters.

2.2 Failure

Entrepreneurial failure has been divided to three different parts. The first one is describing what a failure in entrepreneurial surrounding is and what happens around failure event. Second part is explaining antifailure and entrepreneurial biases and fallacies, those might have a big impact to failure. Last part is focused to the time after failure, how a person can “bounce back” from a failure.

2.2.1 Failure in Entrepreneurial Business

What is a business failure in entrepreneurial surrounding? Business failure is a very wide concept and it has various definitions. Both Cope with his colleagues (2004) and McKenzie with his colleagues (2008) have traced the definition of failure in business as far as to Ulmer and Neilson’s (1947:11) definition: ‘firms which were liquidated or sold to avoid loss, in the broad economic sense, may be defined as “failures”’. Since that time several definitions have been used and one clear definition has been missing
(e.g. Cardon et al. 2011, Singh 2011, Ucbasaran et al. 2013). Failure can have both positive and negative outcomes in short perspective, major difference is that with negative outcome failure very often involves negative emotional response, grief (Shepherd 2003). In this study research focus is on the negative failure.

The ultimate and narrowest definition that has been used for a business failure is bankruptcy (e.g. Shepherd & Haynie 2011, Singh 2011, Zacharakis, Meyer and DeCastro 1999), which emphasizes poor economic performance. Positive matter with Bankruptcy as a definition is that it is a clear observable and recorded event (Ucbasaran, Westhead, Wright and Flores 2013). Quite a similar definition is “discontinuity of ownership due to insolvency” (Ucbasaran et al. 2013). This definition includes situations where it was not possible to create new funding or debt (Shepherd 2003) or where that market was not able to create enough revenues for the company survival (Coelho & McClure 2005), both leading to insolvency situation. In some studies, business failure has not been clearly defined, however, those analyses have been made based on persons after their bankruptcy (Singh, Corner and Pavlovich 2012, Singh, Corner and Pavlovich 2015). Despite the bankruptcy (or insolvency) a business failure can happen for several other reasons e.g. when bankruptcy can be avoided, but a company stays at creeping death level, in some level the company has failed. Avoiding bankruptcy in a poor economic situation is an admirable act and such persons have felt proud of that avoidance (e.g. Singh 2011:136), but from “learning from failure” - point of view this avoidance might delay or even prevent the beginning of the learning and reflection processes and at the same time the persons involved might feel greater levels of negative emotions (Shepherd, Patzelt, Williams and Warnecke 2014). In this content a creeping death condition (and barely escaping from bankruptcy) would not fit as a failure according to the definition of failure.

Major part of the resent academic literature on entrepreneurial business failure topic (e.g. Cope 2011, Shepherd, Coviin and Kuratko 2009, Shepherd, Patzelt and Wolfe 2011, Shepherd et al. 2014, Ucbasaran et al. 2010) has adopted wider meaning for failure as “an initiative that has fallen short of its goal” (McGrath 1999). This simple, short and meaningful definition covers financial related difficulties as a bankruptcy as well as entrepreneur’s personal threshold of performance explaining why one of two businesses operating at the same level of performance may be closed, while the other
survives (Gimeno, Folta, Cooper and Woo 1997). Similarly McKenzie (2008) has noted that failure is “a deviation from the entrepreneurs’ desired expectations”, explaining that failure can happen without bankruptcy. In this paper McGrath’s (1999) definition as “an initiative that has fallen short of its goal” is used to explain failure.

In order to start learning from a failure and not to repeat same mistakes again, the reasons for that failure have to be understood (Sarasvathy 2004, Singh et al. 2007). Reasons for a business failure are many, they can vary a lot and failures are very much case and time dependent. Listing all possible reasons is a never ending task, instead of that reasons can be grouped accordingly. E.g. Sauser (1987) used six different categories for failure reasons; undercapitalization, poor planning, lack of expertise and credibility, poor money management, failure to follow regulations and lack of managerial skills. More resent and a beneficial approach for failure analyses presented Cardon with his colleagues (2011). That model has two factors, one is separating misfortunes from mistakes (a company level) and the other is whether a failure was a result of entrepreneurs own decisions or whether the failure was out of entrepreneur’s control (an individual level, figure 2). (Cardon et al. 2011.) This practical approach could be used as the first step for identifying the reasons for failure. Naturally, finding root causes need much detailed information from the specific case in question. Detailed description of failure types in figure 2 is presented in writer’s bachelor thesis (see Haapala 2015).
Figure 2 Failure category classification.

Before the actual failure the first signals saying something is not right might prevent forthcoming failure, when and if corrective actions will be taking place. If right corrective actions cannot be identified and path to success is missing, Singh with her colleagues (2015) have noted pre-failure stigma before actual failure happens. This occurs when entrepreneur realizes that difficulties have become overwhelming and too big and that failure option is likely to happen. This stigmatization might affect the entrepreneurial behavior by sometimes worsening the situation and causing delaying venture closure. Delaying the evident, entrepreneurs were observed to avoid external help or social support and finance more - resulting in more negative outcomes. These actions weakened more venture performance causing speeding up the closure rather than helping to avoid it. This pre-failure stigmatization phase was observed lasting up to several months. (Singh et al. 2015.)

As an example, Vuori and Huy (2015) analyzed Nokia smartphone development during 2005-2010. They found that due to both very strong external and internal competitive pressures and in fear of failure lead to several misunderstandings between top- and middle management. Fear of failure harmed company processes and outcomes, finally partly leading to failure in smartphone development. (Vuori & Huy 2015.) As described, antifailure and entrepreneurial biases e.g. extrapolating future
from past, avoiding failure (McGrath 1999), planning fallacy and confirmation bias (Eisenmann, Ries and Dillard 2012) together with pre-failure stigma (Singh et al. 2015) worsen the situation and affect management behavior which lead Nokia smartphone to too optimistic perception of their capabilities, neglecting long term development and ultimately exiting mobile phone business (Vuori & Huy 2015). This example shows that biases and fallacies might have a very big impact on the result of a company, however, the downfall of Nokia smartphones business cannot be blamed only due to communication misunderstandings between management levels, but biases partly influence negatively correct management decisions leading to “not-so-good” results in the long run. Recognizing or being self-aware of these biases and fallacies might help to stay on the correct path to success.

Delaying the inevitable and knowing failure on purpose might also be one strategy. Delaying project termination has been found to provide more time to reorganize resources and also time for emotional readiness of both decision makers and project members for the loss. Delaying the failure gave more time to reflective thinking about the reasons for the failure. On the other hand, e.g. financial situation could get worse as the sunk cost of an already known failed project would increase further and further. (Shepherd et al. 2014.) Project termination decisions are made by top management who are subject to psychological, social and contextual influences – which have an impact on the termination decision more than pure performance data would suggest (Green, Welsh and Dehler 2003, Shepherd et al. 2014). In addition to that, project termination decisions are also based on the incomplete information at that time, later analyses and reasoning might reveal additional information which might alter correct reasoning for project termination and also challenge the management’s managerial skills of making correct choices (Johansson 2010).

2.2.2 Bias and Fallacy

In some content and cultures failure avoidance is highly valued, as failure is seen as a negative event (e.g. Cardon et al. 2011, McGrath 1999, McKenzie & Sud 2008). Furthermore, when people are seeking success and avoiding failure, those choices can
introduce new errors in learning and interpretation processes as antifailure bias (McGrath 1999). Such errors might cause failure to be more likely and more expensive than needed (Levinthal & March 1993). There are three different categories with such errors: (1) errors due to extrapolating the future from past success, (2) errors owing to cognitive bias and (3) errors due to trying to avoid failure (McGrath 1999). The first antifailure bias is that people tend to oversample success and undersample failure (Levinthal & March 1993). Unintended act when avoiding failure is that past learning also highlights positive outcomes and forgets failures, future actions are adsorbed only with positive learnings from the past (McGrath 1999). In second antifailure bias cognitive, there are two bias types - the first one is confirmation bias; meaning that people systematically reject information which might signal that current assumptions are incorrect (Kiesler & Sproull 1982). Second cognitive bias is the tendency to attach success to person’s own actions, and failure to bad luck (Staw, McKechnie and Puffer 1983). Third antifailure bias with avoiding failure can lead to behavior which seeks failure avoidance. One form of that is a direct metrics manipulating, on purpose or by an accident. Another failure avoidance might occur when resources might be shifted to support initiatives that would otherwise fail or cancel. Value of survival might be higher than economical results leading these uneconomical initiatives to survive. (McGrath 1999.) Such values are e.g. family traditions, hobbies or personal values like freedom and independence (Gimeno et al. 1997). Governments might support economically poor performance business to highlight other values e.g. employment, protective or preserve competition industry, or other local and national policies (McGrath 1999). This might lead to situations where poor performance companies or projects are not terminated early enough and if doing that the focus to real winner generation might be diminished (Eliasson & Eliasson 1996, Sipola 2015:70-76).

Variety of failure reasons and antifailure biases are making failure generalization quite a challenging task. Similar to antifailure biases, as described above, four cognitive entrepreneurial biases are affecting to person judgement: optimism bias, planning fallacy, confirmation bias and sunk cost fallacy. Optimism bias overestimates positive likelihood and underestimates negative ones (Eisenmann et al. 2012:9-11). Similarly, too big optimism has been found to have a negative effect on performance (Hmieleski & Baron 2009). Second, planning fallacy overestimates benefits of a task and underestimates its duration, costs and risks, even when there is past experience on
similar events. Third, confirmation bias remembers, looks for and interprets information in wanted ways rather than neutral (or actual) ways. Fourth, sunk cost fallacy occurs when already spent resources are affecting future decision making. (Eisenmann et al. 2012.) These entrepreneurial biases are closely related to antifailure ones in so that people tend to highlight positive events and neglect negative ones.

2.2.3 Impact and Recovery from a Failure

Actual failure has been noted to have three different primary impacts, financial, social and psychological (Cope 2011, Ucbasaran et al. 2013). In some cases, financial cost due to failure has been noted to have a strong influence on entrepreneurs’ future actions. Clearing financial debt can take years, in some cases entrepreneurs have been forced to e.g. sell their houses (Cope 2011, Singh 2011). Friendly entrepreneurial bankruptcy laws and understanding them have been found to reduce financial cost of failure and to allow fresh start more easily (Van Auken, Kaufmann and Herrmann 2009). This can partly explain county level entrepreneurial differences as in one country more rigid institutional laws are restricting fresh start more than similar situation in another country. Before financial failure novice entrepreneurs, compared to serial entrepreneurs, have been noted to use more personal savings, family and friend’s money for financing their venture (Westhead & Wright 1998). This indicates that at some level experienced entrepreneurs might have financial experience and learning how to run a venture. Other explanations could be that entrepreneurs’ social networks have increased during their venture carrier allowing them to access better funding sources or that entrepreneurs have run out of personal, family and friend’s money, which has forced them to find external funding. If a financial bankruptcy happens, as an average, entrepreneurs, who have had more external funding and not personal savings, have noted to move to the next venture quite easily, while entrepreneurs, who have invested a lot of their own savings, have had severe difficulties to move on, in some cases such persons had to leave the entrepreneurial environment to be an employee (Cope 2011, Singh 2011).
Social cost for failure has been noted to have an impact on entrepreneur’s social networks and friendships. Business failure has been noted to lead to divorcing, breaking up friend and network relationships and even forcing to move to a new area or town so that people would not remember that person via that failed venture (e.g. Cope 2011, Singh et al. 2007, Singh 2011). Access to future funding and resources could be at least partly restricted, if psychological difficulties have not been able to be overcome i.e. if grief from past failure is still disturbing entrepreneur’s emotions (Shepherd, Haynie and Patzelt 2013) and thus affecting one’s social networks. However, if an entrepreneur sees his own past failures in a positive light, venture capitalists have been noted to prefer them, and access to future funding is not limited to such great extent (Cope et al. 2004, Wright et al. 1997b). In addition to financial cost, bankruptcy laws can influence social attitudes and feelings about business failures in general and it may lead to exiting entrepreneurial environment, due to strong public negative reaction (Cope 2011, Singh 2011, Ucbasaran et al. 2013). High failure risk with new ventures and innovative projects can lead to lack of workers as high failure anticipation creates uncertainty, resulting in legitimacy of working in such environment and workers might prefer more stable environment and established companies (Cardon et al. 2011). Shepherd (2009) noted that family members (as the closest social network) have helped to overcome the loss of a venture. On the other side, Cope (2011) noted that business failure has broken friendships as doing business with a friend has revealed a different side of a person.

Psychical cost for failure could be overwhelming for some entrepreneurs. Business failure has been noted to cause grief (Shepherd 2003), denial to talk about event as avoidance (Archer 1999, Shepherd 2003), both to mental and physical health issues (Cope 2011, Singh 2011) or even suicidal behavior (Singh 2011). Some scholars have illustrated business failure as death of one’s own baby or loved one, and likewise psychical effects could last a very long time, e.g. several years (Cardon, Zietsma, Saporito, Matherne and Davis 2005, Shepherd 2003).

Grief, a negative emotional feeling, has been noted to impact negatively the ability to learn from a negative event (Shepherd 2003) and it can cause an individual not to remember events just before a negative emotional event (Bower 1992). Shepherd (2003) introduced grief to business failure context, and he also suggested different
methods on how grief can be reduced or managed as well as a dual grief recovery method (see Haapala 2015). Individual’s ability to monitor one’s own and others emotions and feelings, to discriminate among them and to use this information to guide one’s thinking and actions is defined as emotional intelligence (Salovey & Mayer 1990: 189). Emotional intelligence people have noted to recognize and use grief to overcome the loss with different recovery strategies (Shepherd 2009). Important finding is that despite person’s own emotional intelligence level one’s emotional intelligence can be learned and taught to others (McKee 2015, Shepherd 2004, Shepherd & Cardon 2009, Shepherd & Kuratko 2009).

Continuous focus on the failure might escalate grief further (Nolen-Hoeksema, McBride and Larson 1997) and similarly multiple failures might cause individual to question one’s capability to perform similar tasks in the future (Dane & George 2014, Shepherd 2003): thus, over time, breaking the cycle of escalated negative grief becomes more important for physical wellbeing (Nolen-Hoeksema et al. 1997). Conversely, if the person’s confidence or overconfidence is strong enough to overcome the negative fallout of a failure i.e. grief, this person is more optimistic to future and rebounds faster from a setback (Hayward, Forster, Sarasvathy and Fredrickson 2010). Also strong confidence is said to decrease grief (Hayward, Shepherd and Griffin 2006).

Previous experience and learning have been noted to reduce grief; a successful entrepreneur is more able to overcome grief and start a new venture compared to an entrepreneur who has no successful business before (Cope 2011, Politis & Gabrielsson 2009). Similarly, if an entrepreneur has had ongoing multiple businesses simultaneously, fall of one business has not generated high grief as a person has been able to focus on other ongoing businesses (Ucbasaran et al. 2010).

The more analyses a person is doing, the more learning is possible to be achieved and vice versa, the more the person has learned the further analyses can be done. This grief recovery (Shepherd 2009) and reflection time can vary a lot, as learning is not automatic nor immediate. Besides learning from a venture and its fall, learning happens in personal and social surrounding levels. In personal level person could learn about one’s own self-confidence, -awareness and -beliefs (Cope 2011). Past negative
failure experiences combined with learnings might shift their own attitude resulting in exiting entrepreneurial environment (Singh 2011). In social surrounding level person might learn about people around oneself, their true nature and management of relationships (Cope 2011).

2.3 Summary

As a conclusion, optimum strategy for a serial entrepreneur, especially in a highly uncertain surrounding, is to live with failure and learn from it (Politis 2008). Grief has an important negative influence on the learning process after failure. Furthermore, grief might emerge long before failure when anticipation of the failure emerges (Singh et al. 2015). At this stage when a person realizes that something is seriously wrong with the business, corrective actions could possibly lead back to the right path, but if actions are not done or corrective actions are not identified, failure will most likely happen. After failure, recovery process is shadowed with sphere of grief and failure analyses could be doomed to fail. When person is capable to separate emotional feelings and use the failure information to revise their existing knowledge, learning can be set to be in motion (Shepherd 2003). A person learns not only from the venture and its failure, but also about oneself, self-awareness, one’s social surrounding such as one’s network and friendships and also venture management (Cope 2011). Failure analyses and learning from it is not linear and it can take time to complete (Shepherd 2009). Learning method can vary as there are many ways of learning, but combining several methods have been showed to provide better long term learnings than following only one learning method (Bingham & Davis 2012). Once reflection and learning have been completed and as the result matches the person’s own satisfactory level, the person can move on to the next challenge in one’s path to come. A person may also exit entrepreneurial environment due to financial, social or psychical reasons (Cope 2011). Learning from business failure process is illustrated in figure 3.
Figure 3 Failure process.
3 METHODOLOGY AND METHOD

The aim of this chapter is to describe the process of this research. The first part describes research methodology in this study and the second part consists of describing the procedures used in data collection, followed by analyses and evaluation steps.

3.1 Research Methodology

Research methodology means the approach and strategy to carry out research. Methodology covers the overall approach of the research process consisting theoretical framework, data collecting and data analyses parts. (Wilson 2012: 3.) In short, this research is done as an abductive approach using exploratory research design with a cross-sectional study method to collect and analyze qualitative data. This method provides in-depth analysis of a serial entrepreneur’s working carrier answering to the research problem.

In this study an abductive approach is used to answer the research problem. Abductive research approach is a combination of inductive and deductive approaches (Kovács & Spens 2005). An inductive approach is a theory-building process which starts with observations of specific instances and ends with generalization hypotheses and theory (Wilson 2012: 7-8, 304) and a deductive approach uses well-known existing theory (Wilson 2012: 302). Both inductive and abductive approaches aim to develop a new theory, in which deductive approach is for testing that theory. Abductive research tries to develop understanding of new data while inductive approach tries to generalize findings from empirical data. (Kovács & Spens 2005). Created theory in this study started with pre-understanding of the failure in business phenomena. I have described the theory used in this study by collecting and combining material from different scholars and as a conclusion there is no well-known existing theory which would fit to the deductive approach model. The full picture of a failure’s impact as well as the theory for recovering from a failure are quite fresh and still under development e.g. resent Singh et al. (2015) anticipation of failure finding has not yet been noted by other
scholars. This work tries to understand reasons and behavior rather than generalizes the event - an abductive approach is suitable for this study.

Research strategy in this study is an explorative research strategy for that can be used when there is very little earlier work to refer to (Wilson 2012: 103–104), which is currently the case. The main academic literature has focused on success, whereas failure topic research is rather limited and very little published academic literature exists. Further, those published failure topic articles have, from the company’s point of view, focused on the reasons why the company did not succeed rather than on the impact of the failure within the company.

A cross-sectional design is data collecting from number of cases, here as one entrepreneur’s view to one’s own carrier, including failures, and how the expertise, experience and knowledge have evolved. With Cross-sectional design, the data is collected from a single point in time e.g. an interview. (Wilson 2012: 112.) A longitudinal study to learning from a failure with one individual would give much deeper understanding of how learning from a failure has developed over time, however due to time limitations, such an option is not possible in this research.

Research method used in this study is a qualitative research method as that uses mixture of different non-numerical data sources, including observations, interviews and written text for analyses (Wilson 2012: 253–255). Quantitative research method uses numerical data for analyses in order to develop theoretical model (Wilson 2012: 211–213). As this study is based on in-depth interview, qualitative method is the correct option. To get a more holistic view of the reasons leading to failure, several persons (entrepreneur, company sponsor, co-founder etc.) should be interviewed. Especially confirmation bias, tendency to remember information positively might complicate case analyses.
3.2 Research Material

Primary data was collected from three face-to-face responsive interviews and one telephone interview. In this study interview was limited to four persons. Secondary archival material as entrepreneur’s biography from person’s own LinkedIn\(^1\) page was used to support the interview and to get better holistic picture. The interview had no fixed question frame as the interview followed major events in entrepreneurs own timeline. Each interview started with the writer’s introduction to the topic; that the work will not focus on possible root causes to one’s failure or failures, but rather, it focuses on the impact of failure on the entrepreneur’s behavior as well as describes events during (and before) a failure process. After that the focus was moved to the interviewee and the same question about the entrepreneur’s own entrepreneurial carrier path starting from last educational period prior to entrepreneurship were made. The conversation continued with pre-launching entrepreneurial education followed by post-launching activities. The goal with each entrepreneur was to discuss how one’s own entrepreneurial learning had been developed, such ones which entrepreneur saw important to oneself at that time. Persons were selected according to following criteria: they has to be linked to start-up communities and have a serial entrepreneur history in the Oulu city area Blind emails were sent to suitable candidates and four volunteer persons were selected to participate in this research.

These four interviews were made during December 2015 and they lasted from 50 minutes up to 3 hours. In total, these interviews resulted in 6 hours and 14 minutes of recorded data. Three persons were living at Oulu city area and they were interviewed face-to-face. One person had moved to the Silicon Valley and the interview was held on Skype as a telephone conversation. Although that person was not living in Oulu at that moment, that person had earlier worked and influenced in the Oulu City area and was therefore accepted as an interviewee. All interviews were recorded and the material was transcribed verbatim. Interviews were made in Finnish language and their quotes were translated into English.

\(^1\)www.linkedin.com
All interviewed persons were male and each had got their Masters Degrees of Science from the University of Oulu. One person started in the University of Oulu and continued to entrepreneurship before graduating, but a few years later he completed his Masters Degrees of Science in another department. Another person continued to get his Doctoral Degree. After Academic education they have worked as entrepreneurs from 3 to 11 years of time with different types of start-up companies, and the total entrepreneurship time has varied between 9 to 19 years. Based on the person’s own listing at his LinkedIn page profile the number of different companies varied from 7 to 11 (interviewee’s personal status at the start of December 2015). During the interviews, personal comments were that not all companies were listed in LinkedIn page, therefore their company amount should be said to be the minimum company amount in this time period. Their companies’ industry sector varies greatly, but is at least partly related to the Internet and associated software development with different start-up companies. One unifying feature is that their companies belonged to start-up entrepreneurship and not to traditional entrepreneurship where physical and fixed store location is needed, such as a gas station or a cosmetic store. These companies targeted to the scalability opportunities via the Internet and a fixed location was therefore not needed. All persons had international working experience as they had been working outside Nordic countries in some parts of their carrier, e.g. in Europe, Asia, Africa or the North Americas. Three persons had also worked with targeting to create a living start-up society and a network for new start-up companies in the city of Oulu. Shortest venture participation time varied from 11 months to several years. Despite that some company careers lasted several years, and the person’s own role in that specific company was much shorter than the whole company time, e.g. person started as a Managing Director and later continued as a Product Manager. More detailed participant profile is provided in table 1. Each participant was given an alphabetical code name, e.g. participant A, and these match the order in which they appear in this chapter’s text.
Table 1 Additional information about Research participants.

<table>
<thead>
<tr>
<th>Participant</th>
<th>Academic education</th>
<th>Company amount</th>
<th>Community</th>
<th>Serial Entrepreneur, Years</th>
<th>Portfolio Entrepreneur, Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>MSc.</td>
<td>10</td>
<td>x</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>B</td>
<td>MSc.</td>
<td>6</td>
<td>-</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>C</td>
<td>PhD.</td>
<td>7</td>
<td>x</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>D</td>
<td>MSc.</td>
<td>11</td>
<td>x</td>
<td>19</td>
<td>12</td>
</tr>
</tbody>
</table>

According to Hall’s (1995) definition of a serial entrepreneur, a person who owns effectively one business at a time, and Wright’s et al. (1997a) definition, exiting one venture before starting the next one, persons who have been interviewed can be said to be serial entrepreneurs. Nevertheless, all persons interviewed have also had more than one venture simultaneously ongoing, so they might also be considered as portfolio entrepreneurs (Hall 1995, Westhead & Wright 1998). Time of portfolio entrepreneurship has lasted from 2 to 12 years and it is focused mainly to the later part of their entrepreneurship time. The time of portfolio entrepreneurship has not lasted as long as the serial entrepreneurship time, and considering the timeframe used in this study as whole entrepreneurial activity time, these interviewed persons are considered to be rather serial than portfolio entrepreneurs; maybe the best description might be the combination of those two entrepreneurial definitions.

3.3 Analysis Methods

This research uses a data driven content analysis method. This method enables to observe and analyze the data systematically. An important factor is that from the research data it is possible to separate and pick out similarities and differences. Research material is classified according to their relevance, purpose, consequence or connection. This analysis method can be divided into three main phases: sorting,
grouping and actual analysis. Data to be analyzed might contain transcribed text from an interview or some other material or document. In the sorting phase the raw data is to be simplified so that all irrelevant material is filtered out and only the relevant material for the research will remain. Research question or questions then determine which parts will be kept alive for further analysis. In the grouping phase the original expressions are analyzed and similarities and differences are to be found. These similarities and differences are to be grouped into bigger unities and identified accordingly. Grouping criteria can be e.g. studied phenomena, function or consequence. The actual analysis phase combines unities targeting to give an answer to the research problem. Content analysis method is based on interpretation and reasoning, moving from an empirical data towards a conceptual view of the studied phenomena. (Tuomi & Sarajärvi 2009.)

The research data, the recorded interviews, were transcribed afterwards. Verbatim transcribed raw data was first simplified and then sorted into different text categories which contained given meanings for this research. These parts contained text from a single sentence to longer explanatory thoughts about a specific subject area. Text groups were classified according to the theoretical framework of this study and the classification groups were based on the theoretical elements in the failure process as described in the theoretical part (figure 3). Interview findings are presented in the next chapter.
4 RESULTS

In this chapter findings from interviews are presented. Results are divided into smaller groups starting from the time before entrepreneurial carrier. These topic groups follow steps in failure process as it has been explained in the theoretical part and illustrated in figure 3.

4.1 Pre-Learning and the First Venture Steps

All four interviewed persons said that when they entered entrepreneurship they had no pre-education on how to run a venture. At that time, in the late 1990’s and at the beginning of 2000, in the University of Oulu there was no education teaching entrepreneurship.

Person A: “...Not a single word (in the University) that a person could think entrepreneurship... Of course there were such ventures alive, but at that time there was no discussion, if that it could be a carrier option...”

Person B: “...No pre-education, afterwards thinking those could have been beneficial. But at that time there were no such courses...”

The initial step into the entrepreneurship varied, yet every person said that they had no original plans to go the entrepreneurship. A lot was due to external reasons and coincidence, as a corporation was restructuring internally and in the worst case shutting down multiple positions. People started to look for new possibilities, as happened to persons A, B and C. They graduated as Master of Science from the University of Oulu and got a position in different corporations.

Person A was fired from his corporate job at a telecommunication company, but he looked and found a new job abroad. On his way to the airport, ready to start his
international carrier he got a message saying every person in that company to come had been fired; he got fired before the first office day. As all travel arrangements, tickets and visas were completed he decided to fly to the original destination and spend some time there. There he started to work towards unknown with very talented local people. Person A acquired few computers and projects from Finland and the entrepreneurial work begun.

Person B was working abroad in a team with a Finnish global mobile corporation. That team job was shut down and he was offered new positions. While returning back to Finland he was offered an interesting and challenging position in a small venture. During the first venture year he participated in a managing director course about running your own company in traditional small business sector.

Person C was working in a research corporation with an independent position. He was running a venture without risks in a corporate. He had his own team, program, clients and he was able to decide where and how to use external funding which this program was creating. In addition to that the corporation was paying regular salary. All that changed when the CEO changed; with new CEO, new policies came. More regular reporting as well as working hour follow-up resulted in more bureaucratic structure which limited the freedom of the person working, compared to the time with the old CEO. At the end person C saw an opportunity to continue the same work but having his own company, benefiting same freedom e.g. with less bureaucracy and extra costs than he used to have. During his first venture year he took part basically in every course and seminar about running a company that were available in Oulu. He found quite fast that additional value from those seminars was only trivial.

Person D started a company because during the studies he with some other students got an external project, and the best and practical way to do that was to start his own company. They started a company and completed that project and several others to come. Company success led to the situation that he never completed his studies in that department in the University of Oulu. Later, after selling his share of another company, he graduated from another department at the University of Oulu.
4.2 Anticipation of a Failure

Anticipation of a failure happens when person realizes that something is needed to correct this present situation. All persons had faced such situations during their careers. However, remembering such situations years later has clearly diminished event feelings on emotional level. Person B told that he anticipated failure as one possible company choice, which at the end came true.

*Person B:* “...During the last three months (of that company lifetime) I already knew that, if this one issue don’t start, then this will lead to dirty end and I have to take care of it...”

Person C told that anticipation of failure had made him to do different steps to ensure continuation of venture. As was the case with one company during the 2008-2009 depression, they started looking for new external funding for their research. This new company had their own interest and it affected the research goals. With another company, anticipation led to a situation where he had to step into the programmer’s shoes.

*Person C:* “...Decision started to delay. In practice, those decisions were never made, when they cut of all external funding. We found other project...”

*Person C:* “...A week before (the competition) nothing was done. It was always, next week... I decided that, now this has to be end, I made in one week time such a software... and we managed to get it done...”

Person D said that when they were recruiting a person to their company he did not have “the correct” anticipation. Later he said that he started to question his own role in that company. Another company where Person D was a member of board at that time, anticipation of failure was observed. In both cases person D sold his shares of those companies.
Person D: “...I had the feeling that he is not the right person for this job and I should have opened my mouth. However, our Venture Capitalist, who was in charge of those operations, told that all Americans are like that. I was not able to express my feelings, why not to recruit...”

Person D: “...It started to look that Venture Capitalists would like to sell it further. It started to look like I have nothing there...”

Person D: “...It became to look that there are such challenges which we cannot handle...”

Person D: “...To the management in charge, it was clear that I had nothing to give ... Became such feeling that I should step down...”

Person A had worked slightly differently. If the timing did not seem to be correct for a venture or an idea, he put that on hold, sometimes for years. Then, when a new solution or better timing situation came, he opened that case again. Person A said that he has managed to avoid most big failures thanks to this flexibility.

Person A: “...Sometimes I notice, that this is the case which drives, I can do this one and I am able to get talented people around it, then I push that one and leave the other (company) one on background. Will see that other one later.... it does not mean that the venture has died nor it has failed...”

As a conclusion, when anticipation of a failure appears, in some cases interviewed persons managed to fix situations in their company by doing corrective actions, but in other cases it did not help and in their own opinion they faced a failure.
4.3 Failure Situation and Direct Impacts

A failure can happen for several reasons. In the previous chapter person A has mostly avoided big failures, but not all. He has had failures due to different reasons, one is due to global depression during the years 2008-2009, another and the biggest one was due to a bad partner in his company and several failures had been due to creation of trust between persons when working in several countries.

Person A: “...Just when we got the process working, became a total stop. Construction side stopped for few years. So, we also run out of work, and company had to drive down…”

Person A: “...That money what we had (in our company)... our Russian partner took it all. Several hundred thousand euros were gone. He was not a bad man, we know him well... He might had fallen into such huge (personal) troubles, that he had better to pay those, who were threatening to do something (physical). He knew that we would do such thing, he vanished with those money and we have never heard him since…”

Person A: “...Of course there are misjudgments, when trusting persons, especially in the beginning…”

Person C had a long research-oriented path with his company. During depression 2008-2009 company research failed as the product was technologically too difficult. They adapted to that situation and continued with a different approach. After three funding rounds and eight years of research the company was filed to bankruptcy. He describes those two failure situations:

Person C: “...Original environment was (technically) too difficult... There came a mistake, when we had no person in this new area... Not able to create new brand, no new product, because it is much slower adopting anything new that other (market areas)…”
Person C: “...We practically ended all sales and we focused to finish the product for next year’s market. Thinking now, it was a big mistake. We had no such person, who could do hardware for a customer (segment). Nobody told how difficult that was. ...We put all eggs into one basket, we used all money, and we will make product with risk capital.... Mistake, we should have saved higher portion of the money to sales and marketing. We spent too much money on product development...”

Person D has faced different kind of failures. One company failed in the rough market environment. The other company failure was a soft one, and they gradually ran out of interest in to that venture. Later one is an example of the fact that although the company has not faced bankruptcy, for an entrepreneur it has not met his expectations, and thus it is treated as a failure.

Person D: “...We went to test the USA, we recruited wrong persons and we burned too much money too fast...”

Person D: “…That Company is still alive, but when nobody has done anything, so it is a living death...”

As a conclusion, when a person has a long entrepreneurial carrier in a start-up industry, it is likely to have some failed ventures. That an idea is not working is a higher risk for start-up ventures than it is for traditional entrepreneur companies. When persons, as the interviewed ones, accept that there is always a failure possibility, then the impact of a failed venture is not so dramatic. That impact is looked more closely.

4.3.1 Financial Costs

As described above, all the persons that were interviewed have faced and experienced failures, in different forms and types. When starting a venture in start-up industry, the risk of failing is a big one. Acknowledging that possibility has a clear impact to the
venture starting capitals. Startup cost for a new venture was so low that there was no need for major investments.

Person A: “...My father send me 1k€ or 2k€, which I used to buy computers. We started coding upstairs of a house...”

Person B: “...I would not be so daredevil and bold that I would take such bank loan where my house is held as a security or other real securities for a loan...”

Person C: “...We did not invest... We took an entrepreneurial loan\(^2\) for 10k€. With that money we were able to collect over 120k€ direct money from Tekes\(^3\) and our customers... I am not that type who puts house and everything as a security for a loan...”

Person D: “...Now we start. Everyone puts 2,5k€ to that company. If person didn’t put, he was not enough commitment...”

However, when a failure happens it has a clear impact. Person A has faced two difficult situations, one being when the company’s money was stolen, and another when the company faced bankruptcy during the depression in 2008-2009. In both cases the lost was on the company level, not at the individual level.

Person A: “...It was a sad thing. Our money, we (the company) would be much further in the business. Money was lost and few years work, company building was lost...”

Person A: “...It went from 100 to zero, company had some debt left. It would have been possibly to file bankruptcy, but instead of that we put the company to on hold and we paid all loans and debts away...”

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\(^2\) Finnvera (government-owned special finance company) granted personal loan for entrepreneurs. See more https://www.finnvera.fi/eng/node_2686/Loans/Entrepreneur-Loan

\(^3\) Tekes – the Finnish Funding Agency for Innovation, http://www.tekes.fi/en/tekes/
Person B was in charge of operations as a CEO. When the company was reaching new funding they had to delay some governmental payments. New funding never came and the company had to shut down. Financial cost for delaying those payments had fallen to the CEO’s personal responsibility as the company had no money to pay; they faced bankruptcy laws and regulations.

Both persons C and D had in some part invested to their companies (100-200k€) and they both said that with the money they payed e.g. salaries to the workers and the investment risk was so low and in the end they both managed to pay that loan away.

All in all, not every interviewed person had major financial setbacks at in personal level. They were able to separate company funding and personal life, so that if or when a company failed, they were able to financially move on and e.g. start a new venture.

4.3.2 Social and Physical Costs

Company failures did not have a major impact on personal social networks and friendships. According to interviews, in general, they still have had good relations with persons involved in those past businesses. Person B described that he had to use some not so nice tricks when he tried to avoid bankruptcy with one company. Naturally person A did not have further communication with that Russian partner.

Person C says that it is quite difficult to explain experienced failure to other people who are not familiar with start-up and venture business, e.g. his mother. Their ideological world about entrepreneurship is old-fashioned as it is linked to traditional entrepreneurship. He says

*Person C: “...I have given up as trying to convince to other people opinion, it is like trying to convert a person to another religion, it is not going to work...”*
He says is not worth explaining people about start-up and venture business goals and failures around them, so instead of that, he just stopped caring about what other people think about him and his ventures. According to person C, today there are already so many similar entrepreneurial start-up business people that it is unnecessary to explain this phenomena.

One of the Person D’s companies had difficulties at one time period and that company was close to bankruptcy. That caused some sleepless nights thinking on how to solve the situation and move on. When he had a loyal team, persons who were able to stretch when needed, it was easier to share that stress load. After that episode he has had no major issues.

4.4 Grief

Grief is a negative emotional feeling, which might impact negatively to the ability to learn from a negative event (Shepherd 2003). Interviewed persons did recognize grief being present at the time of failure. However, the level of grief (e.g. how deep it was) varied between the persons and also the time it took to recovery from grief varied greatly. When a venture was the first one, the grief was seen to be the biggest. Person A describes the time when he decided to leave his first venture and later give up his shares of that company. He compares this to raising one’s own child; building it up and putting all the time and effort to it. He had been with that company for five years.

*Person A:* “…One’s venture could be so beloved that one is not able to share it nor break away from it. I had those thoughts with my (first company). After I left (the company) and also gave up my shares, it has been easier to live...”

Person C says that before the official bankruptcy of the company, with what he had been working past eight years, he could not mentally let go of the company. Nevertheless he resigned as early as a year before the bankruptcy. There was always
the possibility that the company could find new funding and he might have been needed back. There was a pre-failure grief involved.

Person C: “...Stress was never a major problem. I was not able to live it down before (the bankruptcy) and only after that break out certain stress type symptoms. I had no sleeping problems anymore, it took a long time before I became enthusiastic of anything. I was not interested. Even I know what needed to do, I was not mentally capable. I was not interested to start. ... I can honestly say that I wanted a sabbatical year..... I could have started to develop my other company strait away, but I had no intention to do that. I wanted to brake away...”

Later when the interviewed persons faced another failure, the grief was much milder, as they had learned to cope with emotional feelings. The emotional impact was rather mild when Person A noted that his Russian partner betrayed money from their company (the size of three people), or when person B faced bankruptcy with one of his companies. One notable reason for milder grief could be that person A had other ongoing ventures.

Person A: “...I had no bigger grief, instead my other partner had major one. They were personal friends and he had introduced that Russian person into this company. Also when that was his only (company at the time), I had some other (companies).... maybe we took a timeout, but quite fast we decided to continue. Yes, we wanted to continue, we saw so much good in it...”

Person B: “...Of course it put off when things did not went to that (wanted) direction, instead I was the person who carries that (company) into the ground... After that I had empty feeling. Quite soon I started to build next case.... Surely there was more or less grief involved. Never such, that self-esteem would have gone down... There are so many external variables involved, one should figure those out...”
Person D describes that when one company was close to bankruptcy, he was mostly concerned about how to manage paying the salaries to the employees. He continues that it has been easier to live after they succeeded to avoid the bankruptcy. Person D comments about the company which he founded with his student partners, and each partner invested 2,5k€ capital on it. Person D describes that in general, for him giving up something doesn’t bother him for a long period of time. He can move on quite fast. Person D has also several parallel ongoing businesses.

*Person D:* “...That Company exits still today.... when nobody has done anything for it, so it is a living death.... It still has such stuff and qualities, smart ones ... I believe it would still give better results than e.g. Google search is giving. Such product results which fits better just for me. It is irritating that such smart system don’t exists even today...”

*Person D:* “...It was a one call, where it was decided.... There was some giving up grief. It took one evening (to get over) while I was driving car. Only some days.... Move on, why bother. You don’t need to worry such things, which cannot change the situation...”

As a summary, all persons had experienced grief with a failure at some level. In general, the more committed a person was to his company, the more the grief was present. Recovery time varied from a few days to a year, being very case and person sensitive. When analyzing failure and grief, typically grief was at the highest at the start of the entrepreneurial carrier with the first company. Later on, the persons were able to separate grief emotions and start analyzing actual reasons and learnings.

4.5 Failure Analyses

Typical for analyses and learning is that the process is not a linear one e.g. first, a person does all analyses and then move on to the learning phase. It is sometimes difficult to separate analyses and learning processes from each other. The more is
analyzed, the more it enables learning, which further allows more analyses: it is like a
dialogue. That is also the case with these interviewed persons. In following, findings
have been divided so that the majority determines under which category discussion is
situated e.g. in analyses or in learning.

Person A had faced a bankruptcy with a company during the depression in 2008. They
made solutions to construction industry and when that sector went quiet the company
run out of work. However, person A had a feeling that something could have been
done differently at the company level.

*Person A: “...We made everything to all, when we should have
done one (product) to one (customer). Be good at that. There were
some future trends, but we were not able to grab those anymore...
It was too complicated solution to too competitive markets. Is was
bit too difficult to scale up...”*

At the personal relationship level person A later had his biggest setback with a partner
in a three-man company, as one partner betrayed company money several 100k euros.
Despite this setback he with the other of three decided to continue.

*Person A: “...It (Betraying) woke us up... Betraying has totally
changed our course. With whom we are working...“*

As their current focus is to create a social impact in Africa, they have had long analyses
on how thing should be done. That involved both individual learning and company
learning, but also flexibility to adapt to the local situations.

*Person A: “...Dirties game (business) of all, where I have been
involved. There in the background it is so short-sighted and people
come from so uneducated surroundings. Both (football) players
and their supporting powers, they are so money oriented, so
impatient. Everyone wants that money now, in cash. They are not
willing to do long term development work. That is most
challenging, it has taken five years and longer with my partner. I*
have analyzed and learned (local situation) now I think we are at the right track…. Trust building, when knowing nothing there...

Everyone wants a piece of your (business), when you are a white person there. They see you are their ticket out of there... It is real Mafia business there. When you are, nevertheless, an outsider, it is difficult to act. There are local partner that you can trust...“

In other words, person A has learned local culture and working methods and knows now how to do business with local people. Cultural barriers and prejudices have to be studied and overcome before it is possible to create long term business.

Person A also has a brand new company which was founded in Germany. They had first studied the Finnish law, but it was not flexible enough for that business idea, so they started to study foreign laws. They became acquainted with the laws in Germany and founded that company as their local law system allowed to work with that business plan. This is an example of institutional barriers and how to bypass those when analyzing legal matter situations in different countries. Another point is that a company does not have to stick to one location or country, because if that plan is not flexible enough in one country, then in another country no such legal limitations to starting venture operations might not exist.

Person B highlights that the time in the global mobile company and working abroad gave him needed tools for today’s entrepreneurship. He saw the difference between local culture in Oulu and in International locations. He explains that the global company had some pretty good working process methods. There were methods e.g. programs, milestones, reviews and lessons to learn. In particular, when R&D many times faced events which did not go as planned, there were always lessons-to-learn sessions, which were aiming to find reason for those failures. He says that he has understood this influence retrospectively.

Person B highlights the important role of elder and more experienced persons, e.g. experienced advisors. He has had those persons to support and consult for a long time. Advisors should be available straight from the beginning.
Person B: “...Already during my time in that global company (before his entrepreneurship) I have had such elder, more experience persons to contact... That is absolutely a must thing, if you don’t have those, go and get one real fast... I admit, when (a failure and bankruptcy) situation was in front to me for the very first time, that his (advisor’s) determination and objectivity; this is what we have to do and that’s it....”

Person C has been on a sabbatical year at the time of the interview. He has analyzed deeply and in different angles the whole company development. Firstly, he tells about the time when their original partners backed away during 2008-2009 financial depression and they had to find a new partner. A couple of years later this new partner offered restructuring and merging of their companies.

Person C: “...Maybe it was our own novice thinking, we had not been able to create own strong vision about our company, such that we know where we are going. It was easy to grasp (to the offer), as they said to buy our company and they would give over a million funding. You will start to develop that same product what you have been done for us already in the past. There was not been developed a strong board guidance nor advisors, so that we were able to analyze if that was good (offer) or not. We just noted that this is only reasonable option... “

Person C: “...I was a bit naïve at that time, surely we can do that, with this new funding. Customers will buy, when there is a distributor. Practically we had distribution contracts and overall our product was ready. I believed that time that it is enough to start sales... In practice we had already paid our loan away (100keuros). It felt worth of taking that risk. Other option would have been to temporary layoffs to our 7 workers. Start to find new funding with totally unclear situation... Secured salary for two years and secured funding. It was hard not to accept. Especially
when our earlier vision had crumbled (due to 2008 depression time)... “

Secondly, person C continues analyses at the personal level about him and his co-founder, about root causes for their actions at that time; a sum of all those eight years in that company.

Person C: “...We were both originally researchers. We were not salesmen, surely we had customer contacts all the time and we got customers. We had no sales process, implementing sales or increasing of sales... We did that sales as part-time... We were more engineers that salespersons...“

Thirdly, person C analyzes their product. Their product focus area was changed for the first time when the 2008 depression changed their partners. That product target was into car industry, however in some points they found that to be too complex an environment and technically too difficult. They changed focus again, this time towards customers instead of companies.

Person C: “...Our problem was all the time that we had no money to sales and marketing, all our money had gone to get that product done... We had no money to sale (the product)...We had too little resources to make sales and get those (distribution) channels...

Out product had no brand, it was just a product...”

Finally, person C explains that when they run out of money, they got third funding round size of 30 million euros with a venture capitalist. As they had good technology, the product jump was to wireless environment. However, they still made the same mistakes with sales and marketing. Two years later fourth funding round failed and they never saw the true potential of their product.

Person C: “...Marketing was never invested so much, so long, so perseverance. If that (fourth) funding would have succeeded, I am not sure, if we would have done those same mistakes as earlier...”
Person D had a company where they recruited a person to the USA market. He had a feeling that this person was not a correct one, but as a novice person he did not speak. He has afterwards thought that he should have processed his feeling that something was not right, concerning that case as well as other similar situations. When a person is a novice, like he was at that time, one does not have that needed courage to move or trust. He crystallizes that problem:

Person D: “…We were changing our business model, we recruited persons not flexible to the new model... If you have a strong feeling in your stomach, then you should find ways to put things in motion...”

Person D explains about his current and past jobs. Loyal and equal relationships with team members are major aspects. When there were difficult times, a loyal team was flexible and was able to stretch themselves. Working with a venture is easier as a team. He describes that stress level is lower when you can share that with your team. Person D analyzed the reason for the living death status with one of his companies. He founded that company with his student partners and each partner invested 2,5k€ capital on it.

Person D: “…It is still alive. I don’t feel that (company) as a failure. The company itself did not move forward. It had real good start and we could have managed (to grow), but some persons in our team could not have their commitment in such level what a start-up working needs... It needs full time commitment, they had their own day job and in some part I got also my own day job. Our company never got such critical mass of doing. Perhaps we did not go so far that it would have felt like a failure…”

In summary, all persons had analyzed their failures and why they happened. It was made clear in the interviews that the interviewees will not easily make the same mistakes again. Their learning about past will be discussed in the following.
### 4.6 Learning from a Failure

Learning is said to happen when a person has changed his behavior from previous actions, as defined “a regular shift in behavior or knowledge informed by prior action” (e.g. Bingham & Davis 2012, Lewitt & March 1988, Miner et al. 2001). Person A has developed a strategy which has proven to be flexible. During the depression in 2008-2009 he had to file bankruptcy with a company as construction segment slowed down dramatically. There were some parts which could have been done differently and he pointed that when needed the company was not as flexible as it should have been. Those ideas matured in next five years and finally he restarted that company with an improved business plan. He has used that same tactic for several other companies. If the timing is not correct or some business parts are not fully planned he will not start that company. With experience he has also learned his own skills and that building the right team around that business plan is a key feature.

*Person A: “...When I start (a venture), I collect a good stuff around it, they get work and I can step aside. I rather help these people by going around the world and bringing those contacts to all...”*

Learnings about personal grief, as his friend’s defraud, and shortsighted ambitions to increase one’s own wealth has educated him a lot. He describes the learnings in Asia and especially in Africa and how to approach those business worlds.

*Person A: “...We have to be more intelligent when creating business models. It has taken a long time. We used to do one way, now we have done totally differently, this present way is much better. Severe competition stays behind... Approaching with different angle, to build such brands, that we don’t have to take part into that severe competition, where everyone is fighting for the same resources... It has proven also to be nerve-saving, don’t have to co-operate with everyone...”*

Person B points out, as all others have also mentioned, that the team has to work together for the common goal. Without that it is difficult to go forward. Person D
mentioned that finding such a loyal team might not happen suddenly and it takes time. All interviewed persons described that working as a member in such a team has a bigger motivation than the payment of the work e.g. salary what they are doing now.

One other important issue which person B evaluates is that many do forget the importance of timing in business. He explains that timing has a major role in whether or not a case becomes a success story, commercially successful, average success or a total failure. Today’s working tools have been developed very fast during the last five years, not to mention the last ten years’ time. He clarifies that the experience has taught him a lot. Some of his ventures were way too early concerning market timing. He also points out the important role of education for that timing. His technical education did not prepare for or taught at all about the timing. He has experienced and learned that along the entrepreneurship. As he has worked abroad he has noticed trends that are already “hot topics” in the big world but which are hardly started to be discussed in Finland. Correct timing is also dependent on location, as some cases might not get support in Finland, while in another location that could already go at the full speed:

**Person B:** “...In Finland during last year no one has not even discussed it, now starting a bit waking up... as here (in the USA) that issue is (now) really the hottest thing... how you are able to time that (product) correctly, if breakthrough happens just when the market has the biggest needs. That timing people tend to forget...“

Person C has analyzed deeply his past company development time during the past eight years as discussed in the previous chapter. He started that venture with another person when they quit their day job in a research company and started entrepreneurship. After that, they have got more people involved and three funding rounds to increase their research and development, finally targeting a product to customer markets. At the end, fourth funding round did not succeed and that company was forced to lay off personnel including person C. Other founder stayed in the company in search of more funding, but finally the company was forced to file into bankruptcy. As person C said, mentally letting go of the company truly started only after the company filed bankruptcy. Learnings from deep analyses which Person C has done have influenced his behavior
and the way he thinks at the time of the interview. Note that person C has had another company, besides that major one. After a while, about half a year after that major company bankruptcy, he decided to apply his learnings to that another company.

*Person C:* “...I have been in school for nine years, during that time I have learned nothing. Only after quitting, all that nine years of learning is crystallizing to 3-4 critical issues…”

One of the main points which he mentions is that he finally saw the true meaning of added value to the customer. He had some courses in which that had been taught but they did not see that earlier.

*Person C:* “…I started remember our mistakes, in the point of sales... I started to go to the customers... we were too little with the customer, so that we were able to understand... we presented customers (technical) properties, instead we should have understood customers life and problems... we said that in this product there is 2 week battery lifetime – we should have said that it also works in a cottage, which has no electricity... that is the added value... truly understand that to whom are we creating added value…”

Person C explains that they failed to prioritize correctly. They prioritized fine tuning of the product when they should have prioritized the selling of the product, which would have convinced further funding. His second learning was with capital funding. Venture capital was seen and still is a major benefit and a boost for the company, but as he says:

*Person C:* “...I did not want to end into a similar situation, that we have 200k€ funding, starting to create salary costs, not before when, where and whose problem we are solving. It was my first lesson. Say no to a venture capital... We are not taking external funding, as I don’t want to create costs before I know that there is income…”
Person C explains further that all focus was on getting external funding, and no one talked about succeeding with the product. Venture capitalist is still a person and over the time their funding interests might change. They might not anymore be interested in the next funding round, which would kill the company as they had no other income source ready in place. No venture capitalist wants “just an ok product”; if that company does not really succeed, they will end it. They do not want to stay and hang in between as they have their own money and time also invested in that.

*Person C:* “...Customer money is the number one, decrease salary to get funded (your project). Then maybe TEKES funding or load, which is easy to pay away, maybe after that a venture capitalist. That is the precise order, with a venture capital you truly have to know you need that and that you have a correct path...”

Person C says that his third learning is on the personal level, he has clean conscience about past actions and decisions. He is able to fully focus on the next ventures to come he has good relations with his past. He thinks he has had gained more experience and that there are such venture capitalists that value those learnings.

Person D says that when he was running his ventures for the first time there was a lot trial and error learning, and people are not able to avoid that. At that starting phase people have to study a lot. Also when his company was a pioneering one, the business model was a bit new to all. Another learning method is that they learned a lot by doing on the way. One of the most important aspects for him is not to repeat those failures, on intentionally anyway.

All interviewed persons got their academic education in Oulu when there were no network or societies within the start-up industry. Persons A, C and D were living at the Oulu at the time when the start-up industry started to rise and they saw an opportunity to help and to connect people. These persons were also willing to share their experiences doing business in foreign markets to local new companies as they established incubators and communities. Similarly, all persons have been asked to join new companies e.g. as the board member or CEO, as they have gained vital skills on how to do start-up business.
One major aspect arose during the interviews. All persons had very strong motivation towards doing their present work. Their entrepreneurial work has given them motivation, freedom and commitment. They said that they have learned a lot not only about the work but also themselves as well, more than they would have been able to accomplish e.g. in a global company personnel. They said that they would not change this situation. Person C said that especially the freedom of doing work is something which corporate companies cannot easily provide. In short term perspective, he could easily be off the work for a day or two without any sanctions, even one week’s holiday can be arranged in no time. In long run perspective, he has to be sure that promised customer tasks and deadlines are kept. Such a situation cannot easily happen in the corporate world. Person D explained that not only would the salary have to be notably high, but also the strong power to influence the company outcomes would have to be present. A bit later, however, he started to hesitate whether or not he still would start in such a position.

As a conclusion, all interviewed persons have had several different learning methods. As they had almost non pre-learning education before they started entrepreneurship, they were forced to learn while doing. One important factor which factor which drove them forward and which was noted during their interview was that every person was fully motivated towards doing. They were very keen on their ongoing situation, at that interviewing time. Persons had very high motivation and a clear self-awareness. They had or showed no social shame or bitterness to their past carrier. It was very easy to talk and discuss about their failure experiences and they had a very clear picture of what had happened. On the other hand, their picture was of their own interpretations about past ventures. Whether or not their entrepreneurial carrier descriptions included biases and had fallacies or not, persons were satisfied with themselves and seem to have an internal balance with their professional carries and personal lives.
5 CONCLUSIONS

Aim of this research was to understand and explain why entrepreneur needs failures for success. In this chapter conclusions from this study is presented. Chapter one in this study included introduction, goals and significance of this study. Chapter two consisted about most central theoretical research done in this field. Chapter three explained methodology and research method. Chapter four presented research results. This conclusion part has been divided into different categories, to scientific and managerial conclusions, evaluation of this work and finally to wider discussion to the topic. In the scientific part conclusions are viewed at general level related to previous research and in the managerial part more detailed and more practical conclusions are presented. Then limitations and evaluating of this work are discussed. Finally at the end more general discussion and further study possibilities are presented.

5.1 Scientific Conclusions

Failures should be seen from a positive angle, as those are not wanted but sometimes needed events for venture success. With a greater failure acceptance outcomes would be beneficial in all three levels. Individuals would recover faster, their negative cost of a failure might be smaller and most importantly learning would happen faster. Companies with acceptance of controlled failures and especially learnings from those failures would give valuable flexibility and higher survival. At the community level more experienced individuals and flexible companies could benefit also economy. In order to understand the process behind failure, this work will focus on explaining at an individual level the failure process with following research problem:

- How does an entrepreneur learn from failure?

To help answering this question, the main research problem has been divided into two research questions:
• What impact did a failure have on an entrepreneur?
• How did failure learnings change the entrepreneur’s way of working?

Failures are very common especially in start-up industry. The key question is how a person can move forward when one faces such an event, but before going to failure impacts and recovery analyses few important findings were noted about failure itself. Each participant had experienced failures during their entrepreneurial carrier. From those, two different failure types can be recognized, the first one is a bankruptcy of a company, as a severe failure. The second one is, much milder and more common one, that a venture did not meet set targets, like a creeping death status of a company. When looking the failure definition as “an initiative that has fallen short of its goal” (McGrath 1999), the first one, “a hard” bankruptcy as a fallen goal, understanding such situation and taking next steps forward were much easier to take as there was no possibility to turn back. A bankruptcy failure was also noted by outsiders as a company was forced to file it, which also helped persons to move forward to next ventures. In the case of second failure type, situation where a failure was something else than venture insolvency situation, moving forward to the next venture was harder to do. Firstly, there was an option “what if”, e.g. company might find new funding source, as person C described. For him that “what if” situation lasted for almost one year. That waiting time ended when that company was filed to bankruptcy and only after that was person C able to fully move forward. The other aspect is that target level for a company might change along the time. A venture might have high expectations in the beginning, but those could be gradually lowered. Such situation was noted with one of person D’s companies, one which is currently in a living death status. Person D co-started that company, but all participants gradually ran out of time to work with that venture. Even at the time of the interview person D did not treat that company as a failed one, they just had contributed none of the work to push it forward. Concerning milder failures, moving forward and letting go of that venture might be difficult. It is also difficult to determine whether or not a company still is savable or whether it should be killed e.g. to minimize costs. Such failure cases are very case and person sensitive, and general rule is very difficult to give; failure should be looked from the eyes of the entrepreneur at that specific time and with that available information. In short, entrepreneur determines oneself when an initiative has fallen short of entrepreneurs own venture goals.
Academic literature has noted to have three different primary impacts, financial, social and psychological (Cope 2011, Ucbasaran et al. 2013). When looking at failure as a financial cost none of the interviewed persons had major damage in personal life when facing a failure. All persons noted several occasions where the important factor was to separate the company failure from personal failure. Working in the field of high uncertainty and high failure risk these interviewed persons have successfully managed to separate those two issues e.g. Cope (2011) and Singh (2011) reported a person who could not do that e.g. one had to sell their house, to get away from the debt. Deeper analyses to their research revealed that those individuals had worked in the traditional entrepreneur field, with high fixed capitals, and not in the field of start-up sector, where no or only minor fixed capital is needed. Person Gill worked in a promotion company and it took five years to clear debt (Cope 2011), while in 11 of 21 interviewed persons in Singh’s research reported a loss of property and assets such as houses and/or cars and life savings (Singh 2011). Only one person (person L) in Singh’s (2011) research worked in ICT sector and that person had reported no financial costs, while the other persons worked in the field of traditional entrepreneurship. In Cope’s study, three out of eight persons were involved in traditional entrepreneurship (Cope 2011). Merging these two different entrepreneurial sectors could blur the results and the outcome might be flattened out; in the case of financial costs. Despite the quite limited material in this research, based on the four interviewed persons, I am willing to argue that in the field of start-up industry such high financial costs with a failure, as mentioned above, are not typical situation. In the ICT and the Internet based start-up industry sector people are playing safe and they do understand venture risks and can separate venture and personal finance. Naturally there are individual, cultural and geographical differences, which are not highlighted in this study as the study material is too small and limited for that.

Negative social or psychological costs with failures were not noticed. Persons were comfortable with themselves, even when their business had gone down. This finding differs to the results which some scholars have reported (e.g. Cope 2011, Singh et al. 2007, Singh 2011). Reason for the difference could be the same as the situation that was explained when describing financial costs where startup entrepreneurial business was not separated from traditional entrepreneurship. In this study, interviewed persons’ business areas were not in the field of traditional entrepreneurship; those were
in the field of startup entrepreneurship. In this field, the probability and expectance of failure is high, therefore the persons have lived with that possibility as early as from the beginning (Amburgey et al. 1993, Puig et al. 2014, Sleuwaegen & Onkelinx 2014).

The level of negative emotion, i.e. grief connected to the failure, was milder than expected. Level of grief connected to the person’s first company loss was recognized but the severity varied a lot. Only person C had a long recovery time. At the time of the interviews, person C had just recently “done” the deep analyses and he was close to starting the next venture, while other ones had coped their grief and recovery time years earlier. During the interviews, grief was seen to be the highest with their first failed venture. With later failed ventures grief was milder or not noticed at all as interviewed persons had learned to cope with their emotions. This observation supports the theoretical findings that emotional intelligence can be learned (McKee 2015, Salovey & Mayer 1990, Shepherd 2003, Shepherd 2004, Shepherd & Cardon 2009, Shepherd & Kuratko 2009). Personal learning of how to cope with emotions after failure has happened through both trial and error and improvisational learning models where the person learns while doing and corrects one’s actions through trial and error. With failed parallel ventures, which also had lower commitment level, grief was not noticed. These findings support the findings where after a failure experienced entrepreneurs find it easier to move on to the next venture than novices do. (Cope 2011, Politis & Gabrielsson 2009). Portfolio entrepreneur has said to have lower grief after a failure as one can focus on other ongoing businesses (Ucbasaran et al. 2010). That way a person can focus on the positive aspects i.e. other ongoing businesses and brake emotional bonds with the failed one, which is an example of dual grief recovery process (Shepherd 2003). This was noticed with person A, when one of the three partners in the company betrayed their company money. Person A was able to focus on other businesses whereas for the other persons, overcoming that event was hard.

When interviewed persons started their entrepreneurship, ITC industry sector came up in Finland and companies (like Nokia as well as other successful ones) were driving the whole national economy and there was a lack of employed people. The focus towards entrepreneurship was dimmed by the success of Nokia. (Sipola 2015: 108, 121-132). Need of skilled manpower also influenced education, as Nokia mobile was strongly present in the city of Oulu. At that time, as people have told, the main focus
One special barrier was noted, a barrier which could be seen as a mild cost in social surrounding. The persons, who were not involved and not familiar with the startup business environment found it difficult to understand the benefits of a failure. Person C said that he had given up explaining how this system works as the other party, e.g. his mother, were not able understand, even if they were explained several times. When the interviewed persons were searched for this study, similar finding was noted. Some managing directors of local leadership selling companies were not able to recognize local entrepreneurs with failed ventures at all, as they did not know any such persons. Deeper analyses revealed that these persons were involved more in the traditional entrepreneurship than in the startup environment. These findings indicate that the startup community is still rather young in the city of Oulu, and local understanding of how the startup ecosystem works is quite limited.

5.2 Managerial Conclusions

One of the most challenging managerial tasks for a startup company is to keep talented entrepreneurial persons in the company. Freedom, commitment and motivation are a few of the most important psychological elements keeping entrepreneurial spirit alive
in a company, especially when company is growing. Those are abstract properties which cannot be modelled into a box as one step in the failure learning process chart. Amabile (1996) in her book “Creativity in Context” describes internal motivation to be one of the major root causes behind the entrepreneur having strength and motivation to continue despite failures. Internal motivation for their doing follows every step from starting a venture to failure analyses and learning and continuing to the next venture. If that motivation is lost along the process, venture might lose its flexibility as well as talented persons to another, more attractive company. During the interviews that internal motivation was noted to be present with every person. In some cases it was also noted to be one of the possible reasons why the entrepreneur left and sold his part of the company.

Other important findings are presented in the following. Going forward is much easier after analyzing the reason behind failure. There are as many reasons behind a failure as there are failures. Failures are case sensitive and a combination of multiple smaller or bigger reasons. To give cure for each and one of those is simply too big a task and not a rational work to do. Whereas Cardon with her colleges (Cardon et al. 2011) presented a simple model on how to analyze reasons behind a failure. The simple model categorizes failure in two ways. Firstly whether you could, as an individual, have done something or not, and secondly whether your company could have done something or not (figure 2). Things that are out of your own control such as a global depression or betrayal are misfortune events and a person cannot do much about them. A person can only be prepared for the outcome and hope for the best. There the focus should only be minimizing damages. Mistakes, personal or company failures are ones that can be analyzed further, and studying the real root causes behind those failures are key for learning. The interviewed persons have had several different failures, and if mapped to figure 3, those failures would cover every quarter. The interviewed persons have successfully focused on the personal or their own company’s failure analyses and that has given them such learnings which are the key tools for their future. Worrying about issues that are out of your hand is worthless and a waste of time. That method could be used as the first step in any failure analyses as a tool for an entrepreneur or a manager.
Another important managerial learning is that the bouncing back time from a failure is very much dependent on the person. There is a big variation (from a few hours to years) on how fast an individual is able to analyze, learn from and head for the next venture. What is more important is that a person can learn how to process a failure faster. Person D was close to bankruptcy with a company and it was an emotionally stressful time for him. With later ventures he has managed to cope those emotions as he has gone through and learned by experience how to handle such situations. Similarly, the recovery time from the first venture was seen longer than later failures, as the interviewed persons had experienced it already and knew how to process that.

One aspect comes with the ability to know one’s own strengths and weaknesses e.g. step down from the charge when the company grows. Knowing your own skills and limitations enable company survival. In this study antifailure or entrepreneurial bias were not analyzed as it would have needed cross-sectional analyses for each case. However, those biases and failures might be a limiting factor for the person’s own view and it could lead to wrong conclusions e.g. escalate failure further. Person A had started many companies, first with some other, then he has stepped backwards when a more talented person was needed to fulfill that task. In time he has learned to recognize his own skills and capabilities and that way minimizing the influence of entrepreneurial biases. Before a person is capable to recognize his own skills and limitations, a simple way of preventing those biases from happening is to have an experienced person, a mentor, to talk to and get guidance from on how to proceed during difficulties, as person B explained. Such person could be the board of that company or in one’s own network. Reflective discussions helped person B to overcome difficulties as the mentor gave him valuable information on how to proceed in such cases. His strong recommendation was that:

*Person B: “...if you don’t yet have such one (a mentor), go and get it fast...”*

In addition to the mentor, since the time when the interviewed persons started their entrepreneurial carrier, general attitude and education towards entrepreneurship has evolved. Today a person can find in the city of Oulu advanced entrepreneurial blocks e.g. pre-launching education, venture facilities and social network for new start-up
companies and personnel. Start-up funding has also been improved in that time. Similar situation in general covers the whole country, and the startup ecosystem in Finland is improving but the ecosystem is not complete (Sipola 2015).

5.3 Limitations and Evaluation of this Work

This research has limitations. Firstly, as a qualitative research study, generalization of these results should be examined with caution, especially when the results are based on only four persons’ interviews and the researchers own interpretations from these discussions. Secondly, this study was done with one single interview per entrepreneur. A single interview gave entrepreneur’s own opinion about past events, and the interview might have included antifailure or entrepreneurial biases, which could have been avoided with interviewing several key persons around each of these events. In this study the focus was on how an entrepreneur has learned from his own past and not on what was “the truth” in those events, so cross-interview was not needed. A longitudinal study over the few years’ of time with several interviews with a same entrepreneur would reveal how actual leaning from a failure has modified one’s behavior or if leaning from a failure has changed behavior at all. Thirdly, repeating the same single interview with different stage of serial entrepreneur activity time could reveal totally different results e.g. if entrepreneur has just started a new company resulting in positive emotions about the near future, or if the entrepreneur has had a major bankruptcy with the present one as negative outcome about near future.

However, results show that the described failure process together with understanding of the psychological motivation can be used to understand how failures should be seen. Created models in this study for failure analyses method (figure 2) and for failure process (figure 3) can be used in a failure situation for faster recovery and learning.
5.4 Discussion

I created this analyses method and model based on my own experience. During my varied working carrier I have also experienced layoff, depression times and personal failures. Those times have also been tested by my internal motivation. I used that experience as a base for this work; how a person can bounce back from a failure. Theoretical model was created and it was tested rightfully with local serial entrepreneurs.

In research of entrepreneurship, traditional and startup ventures should be separated because their business models differ greatly. A novel company can have huge market potential and sales without investing e.g. to personnel or physical warehouses. Comparison results and conclusions could be misleading. When a successful novel company grows into a major corporation the startup entrepreneur spirit will most likely disappear at some point. At that point there is a danger in that also the dynamic flexibility will vanish, and major changes needed in the future would happen at a very low or too low a pace.

In today’s community, at least in the Oulu city area, there is up to date education about startup entrepreneurship. Easy access to the Internet allows fast, accurate and close connection to global markets. A simple product can be manufactured with low cost and tested market potential very easily i.e. software program can be coded and downloaded to apps store where it can be sold globally, without a major sales army. If a failure happens, it is important to separate company failure from a personal failure. When entrepreneur understands the rules of the game, own and company money would not be mixed. This would lead to situation where both failure and recovery could be done fast without losing substantial amount of time. Important aspect to be noted is that when a failure happens personal connections and network should stay intact. Burning the bridges is the worst possible option, as those lost people connections could be valuable with future ventures. In other words, threshold to start a new venture is very low; as there are needed education and mentors available, it comes down to person’s own courage and interest to step forward into the unknown and start an entrepreneurial carrier.
REFERENCES


