Do Entrepreneurs Really Learn from Entrepreneurial Failure?

Introduction

The significance of entrepreneurial learning from failure experience has been widely discussed by researchers (Mueller & Shepherd, 2014). While it still seems to be intuitive that entrepreneurs learn from failure, a recent survey revealed that the entrepreneurial learning has no impact on serial entrepreneurs (Ucbasaran et al., 2013). Despite the emphasis on the important role of entrepreneurial learning from failure, serial entrepreneurs do not seem to make an effective use of their experience. As there is general agreement in literature that knowledge and learning are important levers of corporate performance (Wiklund & Shepherd, 2003), the question arises what really happens in case entrepreneurial failure in terms of learning and what can be done to make the most of the newly gathered knowledge by failed entrepreneurs. This proposal exactly deals with this question. More precisely, the aim of this study is to identify potential obstacles of serial entrepreneur's learning process from their previous venture failures. Explorative multiple case studies with German entrepreneurs are conducted. Germany as country is chosen due to the serious problems failed founders face after failure due to the particular entrepreneurial culture in Germany which is rather different from other countries, such as USA.

Entrepreneurial Failure and Learning

While the positive sides of entrepreneurship often well illuminated in literature (Carree & Thurik, 2001; Lee et al., 2011), the significant phenomenon of failed newly created ventures (Headd, 2003; Timmons, 1999) takes place on the back-seat. According to Ucbasaran et al. (2013), venture failures cause several types of costs to entrepreneurs per se: (i) financial costs by a loss of or reduction in personal income, (ii) social costs in relation to its impact on personal and

professional relationships (Singh et al., 2007; Cope, 2011), (iii) psychological costs such as negative emotions in different forms (c.f. Cardon & McGrath, 1999; Shepherd, 2003).

Yet, the high venture failure rates are not necessarily problematic. Hoetker and Agarwal (2007), for instance, argue that business failure has a positive impact on both economy and society due to the release of knowledge and resources from defunct business. Failures provide entrepreneurs an opportunity to discover uncertainties that were previously unpredictable (McGrath, 1999). Prior failure can have positive effects on entrepreneur's knowledge base as it helps them reducing uncertainty, increasing variety, higher maturity levels and expanding the search for new opportunities (Holcomb et al., 2009).

Exploring how entrepreneurs learn from their previous venture failure is of growing interest. Previous studies have revealed that entrepreneurs often continue to establish new ventures after their previous failure experience. According to the survey conducted by Westhead and Writ (1999), a third of surveyed businesses are founded by entrepreneurs with prior business experience in UK. Birley and Westhead (1993) found out that from 11.5% to 36% of new business founders have prior founding experience. An older study with a large sample of US college alumni shows a similar result that 63% of the currently practicing entrepreneurs and 40% of all ex-entrepreneurs had created more than one ventures. Although the percentage varies across the countries, a number of studies conducted in different regions show a great presence of such serial entrepreneurs (Wagner, 2003; Schollhammer, 1991; Kolvereid et al., 1991; Kovereid & Bullvaag, 1993). It is essential to elucidate the run and mechanisms of entrepreneurial learning processes. Notably, serial entrepreneurs do not necessarily learn efficiently from their failures. For instance, based on a statistical analysis of survey data from 576 entrepreneurs in UK, Ucbasaran et al. (2010) found that failure experience has no effect on serial entrepreneurs. We

assume identifying how entrepreneurs can learn more from their failure and reflect their take out on their next business increases the overall economic efficiency of entrepreneurship.

In the last decades, a few research attempts have been made to explore learning from entrepreneurial failures (Mueller & Shepherd, 2014). Previous research can be classified roughly into three categories: (i) practical suggestions to overcome the psychological detraction from failure, (ii) the process of entrepreneurial learning from failure, and (iii) influencing factors on the process or outcome of entrepreneurs' learning from failure. The first research stream focuses on the development of countermeasures against the entrepreneurs' potential 'psychological costs' of venture failure. For instance, Shepherd (2003; 2004) has investigated the role of grief in learning from failures and identified a set of strategies and suggestions to overcome their problem. In the second research stream, Minniti and Bygrave (2001) developed a model of entrepreneurial learning in which entrepreneurs learn by updating a subjective stock of knowledge accumulated on the basis of past successes and failures. They argue that entrepreneurs repeat only those choices that appear most promising and discard the ones that resulted in failure. Recently, Cope (2011) has made a major contribution to the deeper conceptualization of the process and content of learning from failures. He found out that failure can improve 'entrepreneurial preparedness' for subsequent entrepreneurial activity. The third stream is based on the assumption that there are certain conditions to enable entrepreneurs to make an efficient use of learning from their failures. Huovinen and Tihula (2008) discuss that it depends on the entrepreneur's personal background whether (s)he can develop entrepreneurial knowledge out of it. Rerup (2005) maintains that entrepreneurs should have a certain degree of mindfulness to use prior experience in a positive way. Entrepreneurs' prior experiences have also been discussed as a condition for efficient entrepreneurial learning (Politis & Gabrielsson, 2009; Ucbasaran et al., 2010).

Barriers for Entrepreneurial Learning

Entrepreneurial learning is defined as "(…) the process by which people acquire new knowledge from direct experience and from observing the behaviors, actions, and consequences of others; assimilate new knowledge using heuristics to confront discrepancies that are common with information acquired in uncertain contexts; and organize assimilated knowledge by linking it with preexisting structure" (Holcomb et al., 2009). As visible in the definition, entrepreneurial learning is a process which consists of three distinctive steps: acquisition, (heuristic-based) assimilation and organization of knowledge. The conceptualization is close to the construct called 'absorptive capacity' (Cohen & Levinthal, 1990; Zahra & George, 2002) but what makes entrepreneurial learning from failure special is the critical self-reflection that is unusual in other constellations. Serial entrepreneurs need to conduct each of these three steps appropriately and self-reflecting in order to take chances in connection with failure.

Despite of a number of research attempts, there is still little understanding why serial entrepreneurs do not learn from their previous failures and what are the obstacles for the process (Freiling & Wessels, 2012; Freiling & Laudien, 2014). There are three potential reasons for the lack of empirical evidence: (i) the complexity of the learning process described above, (ii) the diversity of potential learning areas, (iii) the lacking willingness of failed entrepreneurs to tell their story. First, what entrepreneurs learned from failures has positive impact only after they assimilated new knowledge, applied it to their new business (cf. Daudelin, 1996) and underwent a process of critical self-reflection. Entrepreneurs should acquire, assimilate and organize new knowledge. However, not all entrepreneurs are capable of taking all of the three steps successfully. Second, entrepreneurs can potentially learn various things from their failure experience. Cope (2003) identified five key elements within the content dimension of the

entrepreneurial task: (i) learning about entrepreneurs themselves, (ii) learning about the business, (iii) learning about the environment and entrepreneurial networks, (iv) learning about small business management and (iv) learning about the nature and management of relationships. Third, according to Argyris and Schön's (1996) seminal work on learning, three different learning modes can be identified: single-loop learning, double-loop learning and deuteron learning – the latter as a kind of meta-learning. All these modes go along with critical self-reflection as well as learning and unlearning processes and should be considered. Previous research has not fully considered the diversity within the elements entrepreneurs learn from their previous venture failure. Depending on the type of new knowledge, the degree of difficulties to assimilate and apply to the new venture can vary.

Methodology

This is an explorative qualitative research to identify the obstacles for serial entrepreneurs to learn from their venture failures. In-depth interviews are conducted with German serial entrepreneurs to identify the new knowledge they acquired from their previous failure experience and investigate to which extent they assimilate and organize this new knowledge to their current business. As a reality check, business plans from their previous and current ventures are compared by a team of researchers to see how they applied their new knowledge. The principals of grounded theory (Charmaz, 2013) are applied to conduct empirical studies and analyze the data. The corrected data will be coded and analyzed in order to identify the obstacles during the learning process.

Conclusions and Implications

We expect that serial entrepreneurs often fail to assimilate and organize the knowledge they acquire from their previous venture failure experience for the following potential reasons: first,

entrepreneurs cannot assimilate the new knowledge because they fail to identify the source for their failure. Second, entrepreneurs can assimilate the new knowledge, but they fail to apply it to the new business possibly because the new business has different nature than the previous one (e.g. industry, structure, business model). Third, entrepreneurs are willing and able to (un-)learn but they often do not find the right mode of self-reflection and learning.

Due to the explorative nature of our study, the basic mechanisms how serial entrepreneurs fail to make use of their failure experience to their future business are focused. This study will offer practical implications how to enhance the efficiency of entrepreneurial learning from failures and research agenda for entrepreneurial learning and serial entrepreneurship.

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