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The many faces of entrepreneurial failure: Insights from an empirical taxonomy

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ABSTRACT

Research on entrepreneurial failure has primarily addressed two issues: the causes and potential consequences of business failure for entrepreneurs. However, few studies are devoted to rethinking the concept of entrepreneurial failure as a multiform phenomenon that involves various configurations. This article extends the understanding of entrepreneurial failure by examining the different configurations that can occur and the associated profiles of failing entrepreneurs. To that end, two major approaches to configuration—theoretically derived typology and empirically grounded taxonomy—have been used to offer a more nuanced view of entrepreneurial failure. This study's findings provide a starting point for a stronger theoretical grounding of research that goes beyond the traditional interpretation of entrepreneurial failure and opens new avenues of research opportunities to explore and compare the different configurations that have emerged and identify the possible dynamism and trajectories among these configurations.

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Executive summary

A large body of research on business failure has mainly focused on causes (“Why do so many new ventures fail?”) and consequences (“What are the effects of business failure for entrepreneurs?”). However, few studies are devoted to rethinking the concept of entrepreneurial failure as a protean phenomenon that can take many different forms. Moreover, the few studies that do exist have been conducted primarily at the firm level (“What is business failure?”) instead of at the individual level (“Who are the failing entrepreneurs?”). This paper addresses this gap observed in the diverse body of literature by proposing a classification scheme that highlights the various configurations of entrepreneurial failure and the respective profiles of the failing entrepreneurs.

To that end, this article is founded on a methodological framework that integrates the two principal approaches to configuration: theoretically derived typology and empirically grounded taxonomy. In the current research, the derived typology is used to strengthen the taxonomy analysis by providing *a priori* a theoretical foundation and offering *a posteriori* an interpretative framework to discuss the resulting taxonomy. To reduce the gap between the theoretical typology and the empirical taxonomy, an explorative qualitative study was conducted as a preliminary step to the quantitative taxonomic analysis.

Based on the complementarity of three approaches to failure—deterministic, voluntaristic and emotive—the derived typology aims to overcome a binary classification that opposes the survival of well-performing firms compared to firms that exit due to poor performance. Between these two extremes, the typology distinguished three configurations of “exit attributable to failure” that expand the existing entrepreneurial exit typology and three configurations of “persistence with failure” that offer a more nuanced

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perspective of consistently underperforming firms. Without the inclusion of these intermediate conceptual configurations, the understanding of entrepreneurial failure would remain incomplete.

Based on empirical data gathered from 105 failing entrepreneurs operating in Tunisia, this article proposed a grounded taxonomy that offers a richer empirical understanding of entrepreneurial failure. It proposes portraying the “conceptual configurations” of failure by identifying the failing entrepreneurs' profiles that are associated with these configurations. To this end, in addition to the typological analysis, a taxonomic analysis was conducted using double-hierarchical and nonhierarchical clustering. The grounded taxonomy describes five profiles of failing entrepreneurs: the “confused,” the “supported at arm's length,” the “megalomaniac,” the “dissatisfied lord” and the “big-time gambler.” The taxonomy reveals that no “typical” failing entrepreneur profile can represent all failing entrepreneurs. Whereas the typical profile of a failing entrepreneur has generally been associated with the profile of the confused entrepreneur— one who is younger, less educated, inexperienced and driven by push motivation factors such as unemployment, having a weak social support network and being forced to exit because of firms' insolvency—the resulting taxonomy empirically shows that the profiles of failing entrepreneurs are much more diverse. Other profiles—the “supported at arm's length,” the “megalomaniac,” the “dissatisfied lord” and the “big-time gambler”—are seldom discussed in the entrepreneurial failure literature.

Through the rapprochement between the higher levels of abstraction that are specific to the typological approach and the empirical reality that has been raised by the taxonomic approach, this paper's findings provide a starting point for a stronger theoretical grounding of research that goes beyond the traditional interpretation of entrepreneurial failure, which usually refers to a single configuration involving an exit due to insolvency. The grounded taxonomy can be used in future research as a typological framework to develop a more useful classification. This taxonomy also identifies the specific theoretical challenges ahead for researchers who seek to advance knowledge regarding the causes and consequences of entrepreneurial failure, which differ according to several possible configurations.

1. Introduction

There is a long-running debate in the entrepreneurship literature on the phenomenon of failure. Two main issues dominate this debate (Shepherd, 2013). On the one hand, a large body of research has developed to explain the causes of business failure or survival (Artinger and Powell, 2015; Michael and Combs, 2008; Shepherd et al., 2000; Thornhill and Amit, 2003; Van Gelder et al., 2007). On the other hand, an increasing amount of research has investigated the potential consequences of firm failure for entrepreneurs (Cope, 2011; Jenkins et al., 2014; McGrath, 1999; Shepherd et al., 2009; Singh et al., 2015; Ucbasaran et al., 2013; Yamakawa et al., 2015). Although the literature on the causes and consequences of business failure continues to expand, proportionally less time has been devoted to rethinking entrepreneurial failure as a multifaceted phenomenon.

This research aims to address this gap in the literature by drawing upon the configurational approach (Miller, 1996). Contrary to a causal approach that assumes both that empirical samples are homogeneous and that the same theoretical framework and empirical findings apply uniformly to observations in general (Meyer et al., 2013), the configurational approach assumes that samples can contain numerous homogenous configurations that differ from one another (Ketchen et al., 1997). The analysis of these configurations is an essential step toward a better understanding of complex phenomena. Although the configurational approaches are gaining momentum within the entrepreneurship domain (Harms et al., 2009), few studies have combined both of the major approaches to configuration: theoretically derived typologies and empirically grounded taxonomies (Witmeur and Biga, 2010). By applying these complementary perspectives, this research aims to contribute to a better understanding of entrepreneurial failure by examining its different configurations and the associated profiles of failing entrepreneurs. To this end, we develop a theoretical typology and an empirical taxonomy that highlight the multiform aspect of entrepreneurial failure.

This research aims to make several key contributions to the literature on entrepreneurship. First, little research has explored the multifaceted aspects of entrepreneurial failure. Moreover, the research that does exist has primarily been conducted at the firm level (Bruno and Leidecker, 1988; Bruno et al., 1992; Crutzen and Van Caillie, 2010; Everett and Watson, 1998; Platt, 1985:6; Smida and Khelil, 2010) instead of the individual level. By placing all emphasis on business failure's causes (“Why do some entrepreneurs fail?”) or consequences (“What happens to entrepreneurs when their new ventures fail?”); unfortunately, little attention has been paid to the question of “Who are the failing entrepreneurs?” This article extends the understanding of failure phenomenon by developing a combined theoretical and empirical classification of failing entrepreneurs.

Second, the inclusion of underperforming survival firms (DeTienne et al., 2008) as a facet of business failure involves a shift in the analysis from the current literature stream. Indeed, several recent studies (Byrne and Shepherd, 2015; Jenkins et al., 2014; Singh et al., 2015; Yamakawa et al., 2015) have been confined to the narrow conception of business failure as exit due to insolvency (Shepherd, 2003), thus excluding persistently underperforming firms (DeTienne et al., 2008), whose destructive effect may be more dramatic than exits caused by insolvency, which sometimes offer the opportunity to reinvest the closed firm's resources into other entrepreneurial activities (DeTienne, 2010). Without the inclusion of underperforming (but surviving) firms that may destroy more resources than they create, the understanding of the failure phenomenon remains incomplete. This paper provides a wider perspective of entrepreneurial failure by incorporating underperforming firms. It also offers a more nuanced perspective of underperforming firms by providing a theoretical and an empirical categorization of this phenomenon, which typically refers to a single configuration: firms with performance below the entrepreneur's performance threshold (Gimeno et al., 1997).

Third, this article adopts and expands Mellahi and Wilkinson's conceptual framework (2004) in the context of entrepreneurship by proposing a more adapted theoretical framework based on the complementarity of three theoretical approaches to failure: deterministic, voluntarist and emotive. It integrates the emotive approach as a third complementary perspective. Building on discrepancy theory (Cooper and Artz, 1995)—which is rarely used in the entrepreneurial failure literature—the emotive approach offers a

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