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Essay

Entrepreneurs: Between Failure and Starting Over¹

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Abstract

This essay analyzes the entrepreneurial journey that occurs from failure till starting over, or “moving on.” The first section will offer an overview of the correlation between entrepreneurship, failure, culture, and the economy. This will offer a background understanding to the discussion of the various stages that entrepreneurs go through after failure. This is followed by an analysis of the steps to starting over, which will include real-life examples of entrepreneurs. As a conclusion, the essay will suggest various paths that entrepreneurs may take after starting over.

The greatest accomplishments require individuals to handle a number of trials that may often include failure. In a sense, this idea is embedded in many of the definitions of the term ‘entrepreneur’. Eklund et al. (2) define an entrepreneur as an “individual who not only discovers new successful combinations [...] but also someone who can manage uncertainty.” This uncertainty is evident as in the UK 20% of the businesses collapse in the first year and 50% collapse within three years (Brown, “My Business”). Indeed, failure may often be inevitable; yet, it is important to understand the life of entrepreneurs after their failure.

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An integral part of entrepreneurship is failure, which arises as a result of the uncertainty in the outcomes of the entrepreneurial performance (Baù et al., Ucbasaran et al.). This notion has now become more common in economic research, and has become part of modern definitions of entrepreneurship. However, this has not always been the case. In the type of economic thought that gained currency in the early 1990s (Olaison and Sørensen), the practice of entrepreneurship was thought of as synonymous with the achievement of economic growth, which caused societies to demand ever “more successful entrepreneurs” (ibid.). This earlier definition and correlation was influential as it placed high expectations on the rising entrepreneurs of that era.. For example, a study on Ireland during the financial crisis of 2008 argued that one of the factors that led to the crisis was the rationale that entrepreneurship is the “most crucial resource for economic growth” (Olaison and Sørensen, 195). The authors of that study noted that “entrepreneurship acted as a fantasmatic smokescreen that, while appearing to offer a compelling utopia to Ireland's people, privileged particular forms of economic action and stymied resistance.” (Kenny and Sciver in Olaison and Sørensen, 195). Faith in the role of entrepreneurship as a “unquestionably beneficial” force was shaken during the crisis, as more and more business owners failed, and could not “live up to these high expectations” (ibid.). Eventually, economists came to the realization that failure is an integral part of the economic process (Eklund et al.).

Although failure is a central feature of entrepreneurship, each entrepreneur may face it from a different angle. To exemplify, failure could exist as an entrepreneur liquidates all assets, fails to see the projected return on investment, or falls short of meeting projections (Eklund et al.). Similarly, the traumatic effects of failure on the entrepreneur vary as they could potentially induce depression and feelings of worthlessness (Baù et al., 910). These feelings potentially increase as the “discussions of failure blamed the individual entrepreneur for entrepreneurial failure” (Olaison and Sørensen, 196). In my opinion, there is an extent of failure that results from an individual due to the incompetence whether in design or execution; however, individual shaming will negatively impact the entrepreneur, especially on a psychological level. To support my view, Baù et al. (928) argue that failure is part of the entrepreneurial process and should not be understood solely in negative terms as it could hinder the growth of the entrepreneurs and the economy. They “show that business failure is not the final destination of many entrepreneurs” and claim that their “results show that reentry after failure is indeed a common phenomenon” (ibid.). Therefore, failure should be understood through a variety of aspects such as culture. To exemplify, it is evident that the cultural traits of “institutional collectivism and uncertainty avoidance” in a nation has an impact on the entrepreneur’s likelihood of business entry (Wennberg, Pathak, & Autio, 773). According to Wennberg et al. (761) the higher the cultural aspect of uncertainty, the less the likelihood of entrepreneurial entry. For example, Sweden and France

have high uncertainty levels which reflects low percentages for their entrepreneurial entry (Wennberg, et al. 763).

Understanding the dilemma of entrepreneurial failure can essentially pave the road to examining the life that entrepreneurs face after failure. Ucbasaran et al. (166) lay down three stages that entrepreneurs go through after their failure. The first stage is known as the “aftermath of failure”, which involves witnessing the immediate consequences of failure. These immediate consequences include: financial, social, psychological costs. The financial costs deplete the financial resources of the entrepreneur and may place him/her in personal debt (Baù et al. 912). The social cost could potentially affect the personal and professional relations to an extent that it could break down marriages (Ucbasaran et al., 177). The psychological costs could fall between the emotional or the motivational. For example, an individual entrepreneur can be “complex and arguably paradoxical” after failure, to the extent that s/he rises to enjoy a learning opportunity or falls to an emotional and traumatic experience (ibid.). One of the emotional experiences that entrepreneurs face is grief. According to Corner et al. (692), grief is a strong negative emotion that could “obstruct learning from failure.” In my opinion, such a claim is mistaken as grief could be one of the driving forces that cause an entrepreneur to start over. In a sense, a negative emotion does not necessarily hinder the entrepreneur to rise; rather, it could stimulate the entrepreneur to learn from experience. Parallel to my view, Ucbasaran et al. (171) posit that the “grief

dynamics interact at the individual level through emotional intelligence” to play a role in learning from failure and develop a set of strategies for grief recovery.

The second stage that entrepreneurs face after failure is “sense making” through the learning process. This stage is achieved as the entrepreneurs identify why their business failed and use this knowledge to manage their new business. For example, Nick Baker, a 41-year-old system architect at Microsoft, went through several failed projects in his career at Silicon Valley. Eventually, after multiple failed attempts he identified his failure to work closely with his team and communicate with others as a weakness that led to the failure of his business (Ucbasaran et al., 183). Hence, sitting back and analyzing the failure points is a crucial aspect to help in moving forward to the third stage of the recovery process, which has been called the “recovery outcomes.” One of the common outcomes that appear after failure is productivity which has been shown to increase during phases of fast recovery from the psychological, financial, and social costs (Ucbasaran, 186). In other words a process of fast recovery can potentially enhance the entrepreneur’s emotional and physical well-being. On another note, it is important to discuss the behavioral outcomes that exist in the last stage. It has been said, for example, that entrepreneurs who experience failure may potentially develop strong intentions to start subsequent businesses (Ucbasaran et al., 187). In my opinion, this desire could potentially arise due to the learning opportunity that they gained which drives the entrepreneurs to aim for a better performance. Baù et al.

(912) present a similar line of argument as they mention that some failed entrepreneurs “move on to create new businesses” and they are usually identified to “perform better” due to the learning experience.

As entrepreneurs are faced with three stages of life after failure, they are constantly striving to identify the right track to start over. One of the most inspiring stories of starting over is of Paul Pruitt, professional photographer and founder of PROFITographers.com. In 1997 he began his career in real estate and climbed the ladder of success to become the sole owner of a \$8 million real-estate company. Due to his success, in 2002 he was named one of the “30 Under 30” in the world. However, this success did not last long: in 2008, and in less than a week, he went from being on top of the world to being “more than \$3 million in debt” (Pruitt, “Re-Inventing Yourself”). His failure resulted from entrusting key positions in his firm to family members. During his absence, a close family member played with the bank accounts and was laundering money. To begin the path of starting over, Pruitt started by embarking on healing process which involves rediscovering oneself and keeping the business behind (Fernandes, “Starting Over”). Pruitt began to search for his fulfillment in his work, and remembered that ever since he was seven years old he had been interested in photography. He then decided that it was the right time to pursue what he always wanted, and learn from his mistake (Pruitt, “Re-Inventing Yourself”). Unlike Pruitt, Fernandes notes that the first step to starting over involves finding comfort amongst family and friends. Indeed, this step is crucial, though I believe,

that it not always feasible. In Pruitt's case, he could not find comfort among his family as he lost trust in them and blamed them for his failure. That said, it is important to focus on who or what is really to blame for a failure, rather than merely point fingers (Gallo, "How to Help Your Team"). I believe that it is ideal to begin recovery by focusing on the aspects of life that one has neglected (Rampton, "10 Ways"). This will push the entrepreneur to identify their desires which leads to success.

To fulfill the desires that have been neglected requires an entrepreneur to focus on mentoring, networking, and financing in order to start over. Initially, identifying the right mentor can help an entrepreneur develop a steady base for starting over. For example, Steve Griggs, founder and CEO of Steve Griggs Design which is known for landscape design, indicated that his success has been achieved due to his mentor Grant Cardone, who is an entrepreneur and a New York Times best-selling author (The Oracles, "Success"). Followed by that, it is crucial to "learn who is in your tribe," in other words, to engage in networking (The Oracles, "11 Ultra-Successful Entrepreneurs"). This may be achieved as entrepreneurs develop a list of questions and share it with someone who shares their vision (ibid.). This enables the entrepreneur to meet diverse people who could potentially be of great help in the future. Furthermore, to network successfully it is important to be fearless, to talk to everyone, and to ask for help (ibid.). As networking is achieved, it becomes vital to analyze the source of financing that should be used to start over and implement the desired outcome. Initially, entrepreneurs need to identify their financial status. In a

sense, if the failure resulted in bankruptcy then entrepreneurs could reach out to professional or personal networks to find a job. Fernandes (“Starting Over”) thinks that working for someone else before “jumping into your next business venture has its benefits.” One of the benefits is to have an income rolling which could be derived simultaneously as you are working towards the transformation (Rampton, “10 Ways”). In addition, the income that is derived could be used to for two essential purposes: saving and paying off debt. The savings could be used for the future venture or business that the entrepreneur desires. On the other hand, the money could be used to pay off the debts that were incurred due to the failure and it will result in “erasing the past situations” (ibid.).

When the road is clear for the failed entrepreneur to start over, the question arises on where to head. They will need to decide if they should re-enter the entrepreneurial path or opt for a safe employment wage. According to Morgan and Sisak (12-13) the decision that will be taken will depend on the “fear of failure” and entering into the same initial loop hole. This fear acts as a barrier for entrepreneurship due to the psychological factor embedded in it (Cacciotti et al., 302). However, if the aforementioned steps of starting over have been fulfilled and an entrepreneur does aspire to re-enter the world of business, then it is important to note that “failure of one’s firm is not always the end of an entrepreneur’s career path” (Baù et al., 912). Furthermore, Simmons et al. (1) clearly state that entrepreneurs who fail and try again have “better opportunity recognition and

exploitation skills the second time around.” They also indicate that there is a gender gap in re-entry following business failure. This was evident as the research indicated that the re-entry rate of male entrepreneurs is 1.5 times higher than that of women entrepreneurs (Simmons et al., 8). While these statistics are based on experimental studies, I believe that the conclusions have to be used with caution, due to the number of controlled variables that are included (ex. age, reasons for failure, etc.). To support my view, Baù et al. (918) found that more females re-enter the entrepreneurial circle, compared to males, as their age increases. This could be due to the larger commitments that men have as they get older compared to women. Hence, as the controlled variables decrease the findings may differ.

In the end, failure is identified as a “double-edged sword” with respect to entrepreneurial re-entry: On the one hand it may discourage entrepreneurs from starting another business; On the other hand, it could potentially cause them to move on to re-enter the path while taking into consideration the lessons learnt (Baù et al., 912).

In conclusion, after failure entrepreneurs witness the stages of: aftermath, sense-making, and recovery outcomes (Ucbasaran et al., 166). These stages play a role in shaping the failed entrepreneur as he/she decides to start over. Initially, the entrepreneur will begin a healing process which leads to identifying and learning from the mistakes that occurred. As s/he charts a new career path, there are two choices: re-entry into the world of business by creating a new business, or looking for a stable job, though these choices are not mutually

exclusive. In order to make the right choice, an entrepreneur ought to rediscover him or herself, through a search for fulfillment. This fulfillment may be achieved as the entrepreneur starts to find a mentor, engages in networking, and looks for sources of financing to pay debts, and save. All this goes to say that failure in business should not be regarded as the end of a career, but rather as a new beginning.

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