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IS IT WORTH PLANNING FOR FAILURE? WHEN AND HOW? (INTERACTIVE PAPER)

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≈ INTERACTIVE PAPER ≈

IS IT WORTH PLANNING FOR FAILURE? WHEN AND HOW?

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Principal Topic

While much attention is devoted to studying about the market entry decisions (e.g., starting up a business) very little is known empirically about the market exit decisions (e.g., closing down a business) especially in the context of failure (Khavul et al., 2009). To the extent that such exit research exists, studies have primarily focused on economic barriers and strategic factors (Covin & Slevin, 1990).

In this study, we investigate behavioral factors that affect entrepreneur's decision to exit. More specifically, drawing on the escalation of commitment literature, we focus on factors that influence entrepreneurs to delay their exit decision during a failing course of action – time taken from when they initially decide to exit until they actually exit. An orderly and timely exit is important since it ultimately determines the total cost of failure. What impacts the extent to which entrepreneurs persist on a failing course of action in the form of delaying their time to exit? More importantly, under what conditions are entrepreneurs able to de-bias their escalation of commitment in the context of exit?

Results and Implications

On the one hand, we find that longer time and larger amount of financial resources invested into the venture can lead to longer time to actually exit after making the decision to exit. On the other hand, we find that greater investment in human resources leads to shorter time to actually exit after making the decision to exit. The results of our analyses suggest that time and money invested into the venture encourage more escalation of commitment, whereas employment discourages escalation of commitment.

Our findings also suggest that contingency planning reduces the hazard and the cost of escalation of commitment, thus can be beneficial for the entrepreneur. We find that planning can be a valuable activity especially in an uncertain and ambiguous situation like market exit. While the main compelling reason for writing a business plan has been identified as an external purpose to raise funds (Lange et al., 2007) it can also be useful for an internal purpose to reduce escalation of commitment to a failing course of action. Overall, we deliver an explicit message that entrepreneurs can improve their strategic decision-making by *planning for failure*.

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