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DISENTANGLING ENTREPRENEURIAL FIRM EXITS AND FAILURES (INTERACTIVE PAPER)

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Principal Topic

The entry and exit of firms is indicative of a competitive dynamism which signals a positive economic structure. Relative ease of entry and exit is seen as necessary for economic growth. Entrepreneurship is a common means of entry and, despite the efforts and intentions of the entrepreneurs, some new firms will discontinue their activities either by choice or by necessity, due to misalignment of expectations and realized outcomes.

Reported high rates of entrepreneurial firms’ exit labeled as failure have created a stigma, which is believed to have negative impact on entrepreneurship activities. Despite the general tendency in entrepreneurship discourse to associate firm discontinuance with failure, not all discontinuances have the generally expected negative consequences.

The paper explores the phenomenon of entrepreneurial firm exit as a way to disentangle negative and non-negative consequences associated with such noted failure events as bankruptcy. Analyzing the activities leading up to the declaration of bankruptcy and following the process beyond that critical event helps to identify and explain non-negative outcomes and raises the question of when should an entrepreneurial exit be labeled as failure.

Method

The study follows a qualitative methodology based on a single-case study. It analyses the exit and reentry of an entrepreneurial firm in Denmark. Primary data is collected through semi-structured interviews of key stakeholders in the firm, including one founder, an early employee and one of its key investors. Secondary data is incorporated in the analysis which includes critical incidents and within-case displays in forms of field notes used to identify and further illuminate critical events.

Results and Implication

The data shows that critical differences in realized – compared to expected – outcomes forces firms to make hard decisions such as filing for bankruptcy. However, bankruptcy can have a positive impact by allowing the firm to reorganize its activities and reenter the market as a new business whose valuable intellectual resources (Patents and expertise in a particular technology field) have the potential to create positive economic and social benefits. The results raise the issue of the need for a new vocabulary for describing entrepreneurial firm discontinuance, to reduce the negative impact of fair of failure on the willingness to engage in entrepreneurship.

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