LEARNING FROM FAILURE AND SUCCESS: THE ROLE OF DIVERSITY OF EXPERIENCES (SUMMARY)

Annelies Bobelyn
Eindhoven University of Technology, the Netherlands, a.s.a.bobelyn@tue.nl

Recommended Citation
Available at: https://digitalknowledge.babson.edu/fer/vol35/iss2/5

This Summary is brought to you for free and open access by the Entrepreneurship at Babson at Digital Knowledge at Babson. It has been accepted for inclusion in Frontiers of Entrepreneurship Research by an authorized editor of Digital Knowledge at Babson. For more information, please contact digitalknowledge@babson.edu.
LEARNING FROM FAILURE AND SUCCESS: THE ROLE OF DIVERSITY OF EXPERIENCES

Annelies Bobelyn, Eindhoven University of Technology, the Netherlands

Principal Topic

It is widely accepted that organizations can improve their performance by learning from own past experiences and the experience of others. Some studies have argued that organizations learn more from failure than from success, while others have found a reverse effect. The same applies for learning from similar versus diverse events. This paper combines the debate on both issues by investigating how learning from success versus failure interacts with diversity of experience. The venture capital industry provides a reasonably appropriate context to study this phenomenon. As each venture capitalist (VC) typically invests in a variety of firms, each new investment provides opportunities to apply learnings from past experiences. The objective of this paper is therefore the impact of experiences with failed and successful firm investment on the performance of new firm investments.

Method

The hypotheses were tested in a sample of 287 British firms active in the life science sector which received venture capital between 1990 and 2010. Performance was measured as the realization of a successful exit (IPO or trade sale). For the experience measures, I tracked the investment portfolio of the lead VC investing in the firm. Success experiences are measured as the accumulated number of IPOs and trade sales, while failure experience is the accumulated number of bankruptcies in the portfolio of the VC. Diversity is measured by use of a herfindahl index based on industry classifications. I also control for overall VC experience, the number of financing rounds and the number of investors involved. For the analysis of the data, I rely on competing risks models.

Results and Implications

The empirical evidence shows that as IPO and trade sale experience increases, also the trade sale likelihood increases. Similarly, as trade sale experience of the VC increases, also the IPO hazard increases, however the number of IPOs in the portfolio of the lead VC has a negative effect. Regarding failure experiences, a negative effect was found. Furthermore, as expected a significantly negative effect for success diversity was found, while failure diversity had a negative but insignificant effect on trade sale likelihood.

CONTACT: Annelies Bobelyn, A.S.A.Bobelyn@tue.nl; (T) +31 40 247 3613; Department of Innovation, Technology, Entrepreneurship and Marketing, Eindhoven University of Technology; P.O. Box 513, 5600 MB Eindhoven, The Netherlands.