RECOVERING FROM FIRM FAILURE: EVIDENCE FROM SEVEN CASES (INTERACTIVE PAPER)

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INTERACTIVE PAPER

RECOVERING FROM FIRM FAILURE: EVIDENCE FROM SEVEN CASES

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Principal Topic

According to the experiential learning theory, individuals learn from past experiences (Kolb, 1984; Boyazis & Kolb, 1995), and entrepreneurs also learn from failure (Minniti & Bygrave, 2001). Failure can be extremely important, because it reduces entrepreneurs’ confidence in actions that have been successful earlier, and forces them to continue the search for alternative options. It also evokes negative emotions, which if prolonged restrain the recovery process and hinder learning (Shepherd, 2003). Earlier research has suggested that the time needed for recovery is influenced at least by the financial and emotional costs of the business closure and by anticipatory grieving (Shepherd et al., 2007), coping self-efficacy (Benight & Bandura, 2004), emotional intelligence (Shepherd, 2007) and more specifically, by emotion regulation and self-leadership capabilities of the entrepreneur (Gross, 2002).

Method

We interviewed seven failed entrepreneurs about their experiences of firm closure. The themes of the interviews were introduced in a way that enabled the interviewees to freely bring out any aspects of the theme they considered important. In analyzing the case material we are following the recommendations of Eisenhardt (1989). First the cases were analyzed separately allowing the unique patterns of each case to emerge. Then we compared the case evidence and searched for cross-case patterns.

Results and Implications

The study gives support to several propositions suggested earlier. The empirical data of this study confirms that entrepreneurs engage in anticipatory grieving. The interviews highlight the relief that closure of the business brought. The entrepreneurs had been thinking about the closure as a possibility and they had also worried about the situation for longer periods, some even for years. Postponing the closure because of the responsibility for the employees imply that the entrepreneurs try to balance the financial and emotional costs of firm closure. Also evidence on the use of emotion regulation can be found among the entrepreneurs interviewed; the entrepreneurs were able to identify situations in which they had performed successfully. Since many of the entrepreneurs report valuing the experience and especially the knowledge they gathered during their entrepreneurial time, they have been able to process the experience and also learn from it which can be regarded as indication of recovery. Furthermore, several of the entrepreneurs have already started or they still are interested in starting a new venture, their entrepreneurial self-efficacy has indeed recovered from the business closure.

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