Entrepreneurial Failure: distinct perceptions among founders, employees, and investors

* A narrative approach for understanding the concept of entrepreneurial failure

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**Abstract**

This study explores the perception of entrepreneurial failure by different actors in entrepreneurship. Entrepreneurial failure has emerged as an important concept within entrepreneurship literature, since it might impact economic development and innovation of society. Using a qualitative study with a narrative approach, this paper analyzes perceptions of 41 founders, 28 employees, and 14 investors about new venture failure concept. The results show the existence of different perspectives concerning failure. These differing views indicate diverging goals that results in the major tensions among different groups.

**Keywords:** new venture failure, entrepreneurship, failure perception
1. INTRODUCTION

New ventures are believed to have a high failure rate which in some research has been claimed to be closure rather than failure (Headd, 2003). The study of venture failure is becoming an important phenomenon in entrepreneurship research (Cardon et al., 2011), since it might effect economic development, innovation, and job creation (Carree & Thurik, 2010; Lee et al., 2011). Several studies have examined failure from different approaches. Some studies focused on the factors leading to failure (Shane, 2001), some other studies explored the culture in which failure occurs (Cardon & McGrath, 1999). There are several studies on the consequences of failure including loss of financial and social capital (Wood & Bandura, 1989), as well as, the stigmatization and devaluation key actors in failed concerns (Weisenfeld et al., 2008). Some studies examine causes of failure for individuals, organizations and society (Cardon et al., 2011). Recently, some research has focused on the concept of success and failure (Headd, 2003; Coad, 2014; 2; Ucbasaran et al., 2013) as well as entrepreneurial exit (Wennberg & DeTienne, 2014), though there is lack of attention in understanding failure perception by way of approaching the people involved in entrepreneurial process. This is what this paper would like to address. In particular, this study is interested to address the following questions: what does the concept of failure mean to different groups within an entrepreneurial process? What are differences and similarities of failure perception among them? While extant research has addressed failure definition in several ways, the perception of failure by different stakeholders in entrepreneurship is not fully understood. The insight of entrepreneurs and other stakeholders about failure is crucial for the formation and reformation of the structure of entrepreneurial activities, the relationship of different group of actors, and learning promotion for minimizing errors and maximizing the learning benefits of failure experience (Rerup, 2005, Ucbasaran, 2013). Preliminary interviews with a few founders, employees, and investors showed there are different perceptions of failure among various groups in different levels which led to explore this phenomenon in more detail. To investigate this phenomenon in detail, a qualitative study was conducted between 2014 and 2016 with 83 people, including 41 founders, 28 employees, and 14 investors in the USA and Denmark. From an empirical point of view, a new qualitative research with narrative approach, rooted in the social construction of entrepreneurship failure, has been developed. The purpose was to investigate (i) the
understanding of failure by individuals in each level of the entrepreneurial process and (ii) analyze the similarities and differences of their perceptions of the entrepreneurial concept of failure.

Results show that financial measure is a common metric amongst founders, employees, and investors; although, the degree of importance and interpretation of the financial return are not the same among the groups. Financial return showed to be first priority for investors, yet the last priority for employees. Furthermore, it was found that employees understand failure as what moves them further away from opportunities of their future careers, while founders define failure as a reflection of their own personal and professional skillset development. The financial obligation investors have to their partners largely constructs their understanding of failure concept. Finally, it was found that investors’ definition of failure is primarily different from that of founders and employees, which might be an indication that investors are not in tune with what other people, namely founders, are hoping to achieve.

The structure of the paper is as follows: first it discusses various definitions of entrepreneurial failure as well as the costs and benefits of failure. Afterwards, it describes the methodology, and continues with analysis and main findings. The last section argues the results and limitations of the study.

2. BACKGROUND

2.1 Entrepreneurial Failure
Different attributes have been identified for entrepreneurship failure from broad to less permissive to narrow perspectives (Ucbasaran et al., 2013). Regarding the broad definition, studies introduce the business exit. This regards entrepreneurship failure as the act of selling the business, and of having business closure for whatever reason (Singh et al., 2007; Watson & Everett, 1996). This description is not clear enough for business failure since it does not distinguish between closing the business because of the low turnover and closure due to the owner’s decision. This has been addressed by Wennberg and colleagues (2010) through conceptualizing exit by distinguishing it into four exit routes, i.e. exit by liquidation of high or low performing firms (harvest liquidation, distress liquidation) and exit by sale of high or low performing firms (harvest sale, distress sale). Failure cannot be equivalent to exit because exit is defined more broadly, and with various angels (Wennberg et al., 2010) which include exit by failure and by success. It is not also equivalent to closure because closure can happen voluntarily or involuntary,
which is not necessarily failure. Coad (2014) argues the term “death” as a description for business exit, which he claims it covers failure as well. He argues that when a firm is characterized as failure, it will be viewed as failure for the whole period of its lifespan, but death is considered as “it was good while it lasted”. In another study, Headd (2003) distinguished between closure and failure. He defines failure as closing the business with excess debt, and he sees a successful closure as someone retiring from the workforce. Ucbasaran et al. (2013) have defined failure in recent study where they describe failure as the closure of a venture because a minimum threshold for economic viability has not been met by founder/s.

The narrow perspective of failure is viewed as the poor economic performance of the business that leads to closure and a bankruptcy (Ucbasaran et al., 2013; Shepherd & Haynie, 2011). This definition is based on observable and recorded events that indicate sales proceeds are lower that a firm’s liabilities and creditors are unwilling to accept a discount on their liabilities (Couwenberg & de Jong, 2008; Balcaen et al., 2012). The advantage of the narrow definition is the recorded events for the sale and financial returns, however it does not cover other indications of a failing business, such as the reasonable income and rate of return for investors and founders (Watson & Everett, 1996, Ucbasaran, 2013).

The less permissive perspective is a combination of the above approaches. In this approach, business failure occurs when the fall in revenues and rise in expenses is so magnitude that the firm is unable to attract new debt or equity funding, and as a result it cannot continue to operate (Shepherd, 2003). In this approach, some studies have the focus on the threshold for economic performance (Ucbasaran et al. 2010). Measuring poor performance and the specific indication of failure for both investors and entrepreneurs is still problematic¹. For example, Watson and Evert (1996) have considered failure when a business does not provide reasonable income for the owner nor a fair rate of return for investor(s). In this respect there is a contradicting perception of failure, where in most cases the entrepreneur does not consider the business as failed but the investor does. This is what derives from the different thresholds, expectations and as a result, perceptions of failure among entrepreneurs and investors (the evidence received from the interviews). Ucbasaran et al. (2010) also mention that business closure or sale happens because the business has failed to meet entrepreneur’s expectations. This shows different personal thresholds of performance among entrepreneurs (Gimeno et al., 1997) and other involved stakeholders.

¹ Evidence from the 83 interviews with founders, employees, and investors
The abovementioned discussion is a brief review of the concept of entrepreneurial failure within literature which shows that failure has been described in a different number of ways. Depending on the implications of each study, researchers have different views for failure. In this paper, the concept of entrepreneurial failure is addressed through a new approach with the search to find different perceptions of failure among people in different positions in new venture, i.e. founders, employees, and investors. With this regard, first is the concept through people involved in entrepreneurship reached, and then are the similarities and differences of perception by founders, employees, and investors located.

2.2 Failure Importance: costs and benefits of failure
Research has shown the value of entrepreneurship in economic development, innovation, and job creation (Lee et al., 2011); although, a large number of new ventures fail after a short period of time (Dahl & Reichstein, 2007; Wiklund et al., 2010). Scholars demonstrated that failure could be beneficial for economy as the diffusion of knowledge and resources may create a floating tap of resources with the potential of reassembling into new business creation (Hoetker & Agarwal, 2007; Knott & Posen, 2005; Delacroix & Carroll, 1983). Besides, the experience and learning from failure might lead to cost reduction for further (Madsen & Desai, 2010). On the downside, new venture failure could also be costly. Although it can lead to valuable learning for entrepreneurs (McGrath, 1999), failure might be such as a harsh experience (Cope, 2011; Shepherd, 2003) that it ultimately hinders learning. High financial costs of failure might influence an entrepreneur to choose to exit entrepreneurship, and this might have a damaging effect on the economy and society (Ucbasaran et al., 2013). The purpose of approaching costs and benefits of new venture failure in this section is to show the importance of business failure in entrepreneurship and why we need to understand this concept in depth.

2.2.1 Benefits of new Venture failure
Benefits of failure can be found through learning from past failure information. Entrepreneurs can learn from failure through the data they gain about the reasons their business failed. This information gives them the feedback needed to modify their knowledge and learn how to manage their own business more effectively (Shepherd, 2003). The use of the knowledge relates to different factors such as holding good a relationship with external stakeholders, building a new partnership, understanding the market and challenges of the business (Cope, 2011; Singh et al., 2007). Entrepreneurship is the process of learning
(Minniti & Bygrave, 2001), since it deals with uncertainty. Failure is part of this process, and it signifies that something has been wrong in the entrepreneurial process. This is why researchers believe that failure encourages learning because the entrepreneur wants to understand what led to the failure (Politis, 2005; Ucbasaran et al., 2009). Learning could be in the form of behavioral changes (Daft & Weick, 1984; Huber, 1991). While success may enhance the confidence mentally, failure motivates a change in mentality and behavior in business development (Sitkin, 1992). Many entrepreneurs with business failure experience have strong intentions to start subsequent businesses (Schutjens & Stam, 2006; Hessels et al., 2011). This might be the outcome of learning from failure (Ucbasaran et al., 2013). Research has shown that entrepreneurs with failure experience identified with more business opportunities in a given period than those without such experience (Ucbasaran et al., 2009). Failure could be a signal for founders to be more realistic about their own personalities, skills, and capabilities and to realize how these traits are suitable for starting up a new venture again (Singh et al., 2007). In spite of learning advantages and opportunity provision, failure causes various negative effects on people’s personal and professional life. Addressed in the following section are the downsides of new venture failure.

2.2.2 Costs of new venture failure
While failure might be beneficial for entrepreneurs in learning and obtaining feedback to start subsequent businesses, it might also have a negative effect in terms of costs (financially and emotionally) on the entrepreneurial process. First, failure is shown in the form of loss of income and an increase of expenses. This might be a loss of investment from the entrepreneur(s) or increasing rate of expenses of investor which leads to exit. Other costs of new venture failure are emotional costs, which could be the feeling of anger, humiliation, pain, and/or blame (Cope, 2011; Shepherd, 2003; Singh et al., 2007) that could manifest itself in the form of depression or in such severity that affects the motivation of the individual adversely (Singh et al., 2007). Founders may carry certain guilt or self-blame where they feel they were the cause of the business failure. This might result in further distress and anxiety which diminishes the entrepreneur’s beliefs in his ability to do specific tasks successfully, and it ultimately could hinder task performance (Shepherd, 2003). Failure also may have an impact on personal and professional relationships. It might result in loss of social network (Ucbasaran et al., 2013). Due to the stigma
associated with failure, the quality of social relationships is decreased. This shame may lead to negative discrimination in terms of employment opportunities and access to resources (Shepherd & Haynie, 2011).

The above review informs that understanding of business failure may have an impact on the future of entrepreneurship. Even though there will be learning after business failure, it might also lead to adverse motivation in continuing entrepreneurship. These two ideas of the effects of entrepreneurship failure inspire the search to fully address and clarify any misunderstandings of failure as well as to address the different perceptions of failure from different stakeholders.

3. METHODOLOGY

3.1 Research design and context
In this paper, a qualitative approach using a narrative technique is implemented (Elliot, 2005). Qualitative design gives a rich illustration for micro level research which facilitates the induction analysis of patterns for further testing with large data (Eisenhardt & Graebner, 2007; Yin, 2009), and it has been suggested for entrepreneurship studies (Endres & Woods, 2007; Venkataraman et al., 2013).

The narrative design enabled the researcher to expand the micro-level experience of people closely-involved in entrepreneurship which underpins the entrepreneurial failure concept. Narrative approach provides a clear story that connects events in meaningful ways and offers insights about people’s experiences. It contains information about certain events, describing how, where, and when the events happened, and what the subsequent happenings were (Polkinghorne, 2003). Through delving into stories of failure, the factors that describe failure and also the mechanisms of this concept are illuminated. The narrative approach was made with the focus on the particular event “failure”. The data was collected and analyzed according to different groups of people (i.e. founders, employees, and investors) who play the main role in the new venture process. The purpose of the interviews was to focus on the narratives of failure stories, and in specifically, the subjects’ understanding of new venture failure. The interviews have taken place in Denmark and in the USA, as these two locations composed the interview team's best access for data collection. In total, 83 interviews were constructed with 41 founders, 28 employees, and 14 investors.
3.2 Sampling and data collection
To shed light on the different perceptions on the concept of new venture failure, three main categories of individuals who hold an important role in new venture longevity are selected. The first are founders, whose mindset about failure affects entrepreneurship processes. The second is the employees who have a major role in producing, delivering, and managing the product or services. The third group is the investors who have the important role of providing major resources in entrepreneurial process. Different positions of individuals in new venture are selected and compared in order to highlight main contrasts and similarities that provide new insight into the concept of entrepreneurial failure. Data was collected through in-depth interviews with 83 people in total (i.e. 41 founders, 28 employees, and 14 investors) who addressed their perception of the concept of failure. The people in Denmark were identified in two ways. First, the venture capital firm dataset of Denmark was used to locate and contact the firms which had liquidated. Second, contact was made to entrepreneurs working in the science park, in particular within the northern region of Denmark. Subjects for interviews with the people in the USA were found using the snowball approach, starting with already-known founders, who then introduced other investors and employees. As mentioned above, the focus was on the experience of people in entrepreneurial activities, namely failure experience. Furthermore, a narrative approach ensured that each individual gave his or her experience of failure. Data was collected in the period between August 2014 and March 2016 through interviews which lasted 1.5 hours on average for each. The interview is the typical method for data collection in narrative research (Creswell, 2007; Elliot, 2005). Interviews were semi-structured with open ended questions, which the researcher let the participant tell the story of previous experiences based upon the failure context. Other data was collected as background information which played a supportive role in the analysis and triangulation (Creswell, 2007; Kanter, 1977; Yin, 2009). The background data consisted of complementary documents observed by the interviewer during the interview, in-depth notes during and after interview, email communication and further over-the-phone communication with participants. Interviewees have been asked to define the concept of failure from their own perspective and then acting in the place of the other two groups. For instance, founders defined failure from the position of a founder and were asked whether or not their definition changed for employees and investors, and how? This way, a new approach is made in order to understand the concept of failure from different perspectives.
4. DATA ANALYSIS

The analysis was begun by constructing chronologies for each individual in their experience of failure. The focus was on the new venture failure concept. Then, content analysis was made with the purpose of looking for important themes and patterns in the data (Lieblich et al., 1998). The transcribed interviews were used as the main source of data, and other sources of data were used as secondary data for analysis.

Coding of the data was based on the “definition of failure”, and “failure mechanisms” by each individual. This step was made with more open coding, as the aim was to consider the analysis in a wider process (Richards, 2009). Then, the data was re-reviewed for more detail and to separate the data into three categories: founders’ perspectives, employees’ perspectives, and investors’ perspectives. Further on, through theoretical and literal replications (Yin, 2009) similarities and differences of failure concept were identified between these three groups. The analysis description is summarized in Table 1.

<table>
<thead>
<tr>
<th>Coding steps</th>
<th>Description of coding</th>
<th>Coding examples</th>
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<tbody>
<tr>
<td>Broad overview of the data</td>
<td>Going through interviews, finding the key terms that fit data. The data is regarded broadly (Creswell, 2007)</td>
<td>- failure experience</td>
</tr>
<tr>
<td>Re-reviewing the data</td>
<td>Re-reviewing the data to get more elaborated codes</td>
<td>- actions around the failure</td>
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<tr>
<td>Theme-ing and theorizing</td>
<td>Return to data for testing emerging themes and theories,</td>
<td>- definition of failure</td>
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<td>- main mechanisms of failure</td>
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5. FINDINGS

How is entrepreneurial failure described by each of the different stakeholders involved in entrepreneurial activities? Results of the analysis are divided into three main categories: founders, employees, and investors. Main elements of failure concept are discussed in each category. Additionally, there are the considerations of interviewees' on whether or not failure would mean differently coming from the perspectives of the two groups.
Founders’ perspective

Founders stress the fact that the concept of failure depends on different factors. Financial measures are the most common metrics that founders address. The ability to launch a qualified technology or product is the other component for founders’ conceptualizing failure.

Financial measures

Poor economic performance has been mentioned as one of the dimensions in failure concepts by all founders. “failure is where you don’t grow in making money”. “failure is what you have left with nothing financially, your expenses grow without revenue”. The monetary element is considered as the ultimate endorsement of the company. Founders have a drive for positive financial factors because of several factors including a desire for personal wealth, a sense of responsibility to investors, and the need to sustain the company. Founders are willing to overlook a loss in personal monetary gain by viewing a venture failure as personal growth, but they have a harder time to reconciling losing investors’ money. “[To clarify, financially, you don’t have a minimum in mind. As long as you recoup everything you invested, it’s a financial success.] So it’s not exactly like a VC where they go in saying we need 20x our money. Or else we’re not interested”.

(lack of) Personal and professional skillset for launching product or technology

Another dimension mentioned by entrepreneurs in failure definition is the challenge of approaching the market and discovering customer needs. “failure is inability to deliver the idea into the market. I consider my experience failure because we lacked some competences, particularly regulatory and the way of delivering our technology into the market”. “Entrepreneurial failure for me, that is, if I’m not able to come out with the product which can be sold directly to the market. I cannot see that it is a success if we, after some years of development, only come out with the prototype which works in the laboratory but never will work in real life. So, it is crucial that we come out with this working system, ready for market”. Entrepreneurs’ competencies contribute to venture performance and growth (Lerner & Almor, 2002; Bird, 1995). The competent entrepreneur has the capability to exploit better opportunities and formulate superior strategies that fit their business (Mitchelmore & Rowley, 2010). Personal qualities such as outgoing personality, approachability, leadership, self-confidence, innovativeness, and the ability to take risks are the main factors for entrepreneurial competencies which are crucial for new venture performance (Covin & Slevin, 1997; Low & MacMillan, 1998). “The worst kind of failure you could do is that you end up spending all your time on trying to build your own ideas, but in essence, you quickly become slave to other people’s way of
running or dealing with business or in one way of failing in a startup company is ending up spending all your time worrying about the business side and none of the time working on the technology and what you make it”.

Founders are willing to define failure as the end of the world. They will deny deeming their experience as failure, unless they lose everything. “failure is when you have tried everything you can possible imagine to the maximum and you still can’t do it. It’s like you’re hitting a wall… But other that I don’t think, there’s failure in entrepreneurship.” One founder made a similar sentiment saying, “failure only truly is failure if you give up.”

Founders believe that there will be different definitions of failure coming from the place of investors and employees. They believe employees experience failure differently than founders because they feel less ownership to the failure and because the product was not "their baby". “For them, it was a job. And those people were the ones that were the first to leave”. They speculate that employees value failure as backtrack in the road to their future career opportunities. “As long as they can be an employee, it’s a success. They know the potential for them to not have a job anymore. And I think that that’s what they’ll think is a failure. When they’re no longer an employee. That will be their idea of failure.”

Founders believe that financial return is the primary metric for investors' perception of failure. According to most founders, investors would disqualify any company that did not make money from their success category. “Most of the investors I’ve seen have always been primarily financially driven, and so they’re always looking for a way… they’re looking for liquidity in order to recognize value.” “Investors have a definition of failure that’s monetary. For them it’s easy. I put money in. I took money out. Was A greater than B or B greater than A? And if in was greater than out, then it was failure.”

Employees' perspective
The analysis shows that although employees acknowledge the importance of financial metrics in their understanding of failure, many of them placed learning and skillset development over monetary elements into their definition. Furthermore, they also consider the outcome of failure displaying a lack of improvement that can adversely influence their future career opportunity.

Financial measures
Employees consider financial return as an element for failure concept, although it does not have the priority in their definition. “I would certainly like to realize a financial return for the time and effort that I’m placing
into something. But at the same time, I've never kind of taken that purely financial kind of approach.” This is due to the less responsibility and concern employees have about the rate of return and in selling the product or technology. The only metric that ties their interest to the financial issue in the concept of failure could be their salary. “It's also more risky as you do not have as a security that somebody is going to pay your salary or not.”

(lack of) Improvement of skillset for future career opportunities
Employees defined failure by its effect on their learning and skillset improvement. They acknowledge that failure displays what they did not know in the startup. “Even if you fail, as long as there's learning out of it, then it's fine.” “If I didn’t learn. If I wasn't challenged or I wasn’t learning.” They see failure occurring due to a lack of learning and growth, as it is pivotal for them to develop their skills for their future career path. “We were, let’s say we were eight people gaining our salaries supporting our families for four years, most of them five years. Is that a failure? No. It's not. They, if they hadn't been there and hadn’t, you know, they had their salary each month so of course it's not a failure. We took the value to the next company.” Failure would be the result of negative discrimination with respect of employment opportunities and access to social relationships (Cope, 2011; Shepherd & Haynie, 2011. Failure might also influence employees to experience a sense of shame (Efrat, 2006) as the result of not growing as they predicted within the startup. This stigma could possibly effect their advancement into further career opportunities.

Employees' failure description in the place of founders and investors
Similarly to founders, employees believe that investors quantify failure in terms of return on investment. “I don't want it to be construed that I want to come to a company that's not doing well and like, not make it better, take that and be successful and realize a significant financial outcome. And that’s what investors recognize. They’re probably full of shit if they tell you that they’re really happy you’re learning. So really coming down to it, another thing that typically people go do is people typically understand the incentives and the pressure that’s placed on investors”.

They think that founders define failure with respect to financial metrics, even though they believe founders place less emphasis on making money and more emphasis on the vision for technology or product development. “I don't think the goal is to hit a financial home run. I think that's a nice thing if it comes, I think the goal is to really create something from zero.”
Investors’ perspective

Financial return
After the analysis, it was clear that for investors, financial return was the most significant metrics used to define failure. Although it is not clear what the threshold of financial return for the investors is, a positive financial outcome seems crucial for them. “We evaluate the success and failure by whether we’ve gotten any money back or not.” “I’m here to make money. So, I mean... if I want to have fun, I’m goanna go surfing or scuba diving. What the hell, I don’t need to do this. Not that I don’t enjoy what I do, but I’m here to make money. I mean, at the end of the day, we’re in this business to make money.”

However, investors who were previously founders have different definitions of failure when it comes to their own companies than they do for companies in which they invest in. This shift in priorities disassociates investors from the founder mindset. “In most cases they don’t care about anything else, in some cases they have other things that we can help them address, but those are more limited. If you put me in the entrepreneur box I think you’re going to hear things like the objective is to create something is, the learning, the journey not the destination. Clearly financial returns is the destination not a journey. So you’ve heard me already say things that are on both sides of this fence. I hope that in both the entrepreneur and the VC camp we can have a more sophisticated understanding of what’s a success and what is a failure.”

Investors’ failure description in the place of founders and employees
While many of them assumed that founders too are out to make money, some believed that founders seek notoriety and influence, job creation and fast growth. The divergence in founders' source of satisfaction and investors’ perceptions of founder satisfaction indicates that investors are not in tune with what founders are hoping to achieve. “From a founder’s standpoint, to me a loss is anytime when the dreams don’t match what the outcome was. It’s that simple.” “If you put on a founder’s hat, then if you launch a business, it survives, employs a decent number of people, generates revenue and profits, you’ve basically created value more than likely. So it’s successful... there are degrees of success, obviously. But you could be, obviously... we could invest in a company that ends up being described as I just did and not have an exit opportunity, and therefore from the investor's perspective, he didn't necessarily succeed, but from the founder’s perspective, you may have succeeded... the objective of the founder is... from a financial perspective, to create value. From a personal and business perspective, you might describe it as creating a product or service
that has value in the marketplace, as a business that is capable of employing people and a business that’s able to sustain itself.”

Investors believe that employees’ definitions of failure are tied to employment. Holding down an interesting job with upward mobility is the biggest priority for employees according to investors. “Employees are primarily concerned… they’re risk-takers… success would be that they get risk-reward and that they’re rewarded financially, but that they’re also rewarded with a secure position, a secure job and are able to grow with the company.”

Key elements of failure perception by the three groups are summarized in Table 2.

**Table 2: Key element of failure perception by founders, employees, and investors**

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<thead>
<tr>
<th></th>
<th>Key elements of failure in place of founders</th>
<th>Key elements of failure in place of employee</th>
<th>Key elements of failure in place of investors</th>
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<tr>
<td><strong>Founders’ perception</strong></td>
<td>- Financial measures</td>
<td>- (lack of) improvement for future career path</td>
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<td><strong>Employees’ perception</strong></td>
<td>- Financial metrics</td>
<td>- Financial measures</td>
<td>- (lack of) improvement of skillset for future career opportunities</td>
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<td>- Inability for Technology development</td>
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<tr>
<td><strong>Investors’ perception</strong></td>
<td>- mismatch between dream and outcomes</td>
<td>- (un)employment</td>
<td>- Financial measures</td>
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6. DISCUSSION

Entrepreneurial failure is a crucial phenomenon that influences the economy and society in general. Understanding the failure definition may affect researchers’ observations and outcomes. The overview of literature shows there are various definitions for entrepreneurial failure. Depending on the research question, different definitions may appear. A recent study, Ucbasaran et al. (2013), believes the concept of failure can be defined in different ways depending on the focus of the study in financial, social, or psychological aspects of failure. In this study, a new approach has been addressed in which the concept of failure has been defined directly from the people involved in entrepreneurial process. To get similarities and differences in perception of failure by various levels, the interviews are divided into three groups of people involved in entrepreneurial firm: founders, employees, investors. This offers a useful framework to
understand the concept of failure through people involved in entrepreneurial process, first by displaying how individuals react to business failure and second, by organizing how failure phenomenon could be result in the different mindsets.

Findings of this study revealed several implications. First, monetary issues constitute a crucial element in a failure, however realization of financial metrics differ among different groups of people in entrepreneurial firms. The threshold of financial return is different between founders and investors. “What we as entrepreneurs measure making money and growing expectation in certain period of time is different from those of investors. That’s why we can’t continue. Because investors don’t support us anymore”. There is a tension between these two groups for evaluating the performance of the firm. “Failure is where making profit doesn’t fulfill what “you” need. “You” could be entrepreneur or investor. The threshold of these two shareholders is different. I had an experience of - I call it exit by success because we were making profit and we were growing but the investor wanted to exit because in his idea the profit was not enough so he thought it was failure”. “Failure happens when the business provides weak revenue. But there is difference between us, as entrepreneurs, and investors in weak income. In my failure experience, we didn’t grow as much but we were making money. It was not the profit the investor expected so be considered as failure and the business stopped. In my opinion there was a room for growth but he didn’t support.” Founders believe that investors would disqualify any new venture that did not make the amount of money within their success threshold. This makes it difficult to continue as new ventures, particularly for high-tech startups that rely heavily on investors as one of the main sources of survival. “Failure is the point that investors don’t continue supporting because they think the technology doesn’t make the profit as they expected. So, failure happens because we are not able to develop technology anymore without their support”.

The role of investors seems critical in failure concept. When the business is not providing a reasonable rate of return for investors (Watson & Everett, 1996), they reduce their support. Investors assess the probability of success and failure of new venture based on the information that surrounds it (Zacharakis & Meyer, 1998). In terms of investment criteria, investors make decisions which are dependent on the performance of entrepreneurs, product/service attractiveness, market/competitive condition and financial considerations (Shepherd & Zacharakis, 1999; Smart, 1999).
Second, diversity of failure understanding could be due to the different goals of people in joining new ventures. Employees have less of a sense of failure in comparison with the two other groups because they derive value in joining a venture from the career path opportunities and for the learning they gain from working at startups. “Even if you fail, as long as there’s learning out of it, then it’s fine.” But what forms employees’ realization of failure is how they might be affected by the business failure in their current and future job prospects. There might not be as much skill growth as they expected, and they have to play catch-up to update their skills for new careers. “There’s a little bit where we have to move, we have to change, we have to take sort of lower… and then we have to catch up”. Investors have less at stake emotionally when it comes to the startups in their portfolio. Each individual company is one of many and does not require the kind of emotional investment that the founder must commit to it. Additionally, if a single startup fails, it does not reflect on the investors as much as it does on the founders. In other words, no one would consider a venture capitalist a failed investor for betting on a company that goes under. Thus making profit out of investment would be the major metrics of investors’ realization of failure. Founders are the most committed and dependent on their company emotionally as they have been the first mover of the product or service. The quality of the technology and the ability to launch the new idea/innovation to the market has the high priority for a founder that makes it different for their understanding of business failure.

Third, a variety of responses from the three groups when asked about other groups’ definition of failure revealed different expectations and goals for joining new venture. This is highlighted between investors and founders, which could be the result of the different tensions of these two groups. Investors seek for quick growth. They often put additional constraints on founders and employees that are not well aligned with these two groups’ interests. On the other hand, founders tend to have the impact on the market by new technology that sometimes is not realistic. Besides, founders have a difficult time identifying when the startup has less hope and in knowing the right time to pull the plug, while venture capitalist could see that.
REFERENCES


