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# EXPLORING THE PREVENTION MEASURES FOR PREMATURE NEGATIVE ENTREPRENEURIAL EXIT?

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Research interest: The general focus of the research is on creating and stimulating more entrepreneurship among innovative students. More specific the focus is on entrepreneurial exit, entrepreneurial behaviour and entrepreneurship education, where cognitive mapping and psychological cognitive prototyping are revered research methodologies.

*Abstract: In the last decade, directed from the European Union, entrepreneurship and entrepreneurship education became a main topic on both, political and strategic managerial agenda's. Despite the enormous effort and money invested, the failure rate of starting entrepreneurs seems to be stable. Next to an increase of starting entrepreneurs, more young people are faced with the trauma of an entrepreneurial failure. This paper want to explore the causes of a negative entrepreneurial outcome an the possibilities to prevent from this.*

**Keywords:** *Entrepreneurial exit, Entrepreneurship education, Cognitive mapping*

## **1. Introduction**

Running a business or enterprise, is a phenomenon that exists for millennia. Evidence of the exchange of values between persons or parties can be found before Christ. Nevertheless it was Joseph Schumpeter (1934) who in the earlier of the last century pronounced a positive

relationship between economic growth and entrepreneurship. The time of his publication was in a period where the limitations of the industrial revolution were visible. In the last decade, the premise that entrepreneurship is an important factor on the economic development on a smaller scale like a region, is affirmed through many scholars (Ahmad and Hoffmann, 2008, Thurik and Wennekers, 2004, Minniti and Levesque, 2010, Zalan and Lewis, 2010). Carree and Thurik (2003) has shown that a high level of entrepreneurial activity contribute to innovation, competition, economic growth and job creation. For this reason, politicians on European, national and regional level, started to encourage activities promoting and stimulating new business creation (Sijgers et al., 2005, Khan, 2011, Raposo and do Paco, 2011). Organisations as the Organization for Economic Cooperation and Development (OECD) conducted many studies on this and do stimulate regional governments to focus on entrepreneurial development (Ahmad and Seymour, 2008, Ahmad and Hoffmann, 2008). Based on GEM-data it is known that since several years the Total Entrepreneurial Activity (TEA) is increasing worldwide and that a positive relation with the growth of the economy is found (Bosma and Levie, 2009). Though it is not surprising entrepreneurship became to one of the most researched strategic management subjects. In literature two mainstreams for fostering entrepreneurship can be found: one in the person of the entrepreneur (e.g. (Stewart and Roth, 2007), (Judge and Ilies, 2002) and Kirton, 1976) and the second in the process of entrepreneurship (e.g. Shane & Venkataraman, 2000; Shapero, 1982). Research on firm-level is mostly found in the common business management journals. From the late nineties first universities and later secondary and primary education developed programmes to stimulate entrepreneurship. A new twig of entrepreneurship research emerged, known as entrepreneurship education.

One of the leading researches on entrepreneurship education, Allan Gibb (2002), proposed more diversity and dynamics on the education of entrepreneurs. Other researchers as Walter and Dohse (2012) argue that that education methods as active modes, are positively influencing the entrepreneurial education. Neck & Green (2011) conclude that the education structure requires a new approach based on action an practice. Whereas Mathews (2007) argues that constructivism leads to learning that is action-based where ledarners construct or make interpretations of their world through interactions in the real-world. Per Blenker et al (2012) were he argued that the entrepreneurship education need to be adopted for context, culture and circumstances, down to a

personal level. Other scholars argued that entrepreneurship needs other skills or competences (Groen et al., 2002, Kutzhanova et al., 2009, Leitch et al., 2012). A good example of a complete set of skills and competences is given by the QAA (2012). The support given to entrepreneurs in starting can be divided in hard support, as tax reduction and provision of infrastructure and soft support as, coaching and training (Koopman, 2013). Communities as well as universities designed programmes to support the starting entrepreneurs to contribute to the economic growth in both elements of support, likely to have double chances achieving their objectives. A main stream of scholars finds that the support of person, the entrepreneur, has a positive impact on the development of entrepreneurship (Zalan and Lewis, 2010, Raposo and do Paco, 2011) and helps to avoid entrepreneurial failure (Parsa, 2005).

Despite the scientific knowledge and special designed programmes for entrepreneurs, quantitative research shows that the majority of the entrepreneurs do not survive the first five years (Parsa, 2005, Hayward et al., 2006, Bangma and Snel, 2009). For the last decades, many support systems for nascent and academic entrepreneurs established (Hammer and Thuijs, 2012). The output of these programs shows a different score on entrepreneurial failure. Furthermore, it is assumed that entrepreneurial support systems are designed on the elements who lead to success, instead of the prevention for elements of failure, as is common for support systems. Where the semantic opposite of success is failure, in the cognition of entrepreneurs, this word has a negative impact. Recent studies on this phenomena prefer to tackle the concept of 'entrepreneurial exit' while 'failure' or 'success' might be a personal interpretation of an entrepreneurial exit (Wennberg, 2011). The negative entrepreneurial exit is not a prescheduled scenario among nascent and experienced entrepreneurs. Contrary to the North American culture, a negative entrepreneurial exit not only results in a financial deception but also in a social one. McGrath (1999), preferring to address the concept of entrepreneurial failure, argues that although failure is neither painless nor desirable, researchers have to overcome their bias in failure analysis, because understanding entrepreneurial failures allows for the discovery of valuable information, not just for society at large but for entrepreneurs in particular. McGrath (1999, p16) "by the continued denial of the entrepreneurial failure are many important lessons lost on the Entrepreneurial Failure and will not anticipate the negative consequences." "Careful analysis of failure, rather than put the focus on success rates researcher's systematic progress

towards analytical models for value-based entrepreneurship (McGrath, 1999, p 28). Therefore it seems to be fruitful to explore the expected impact of ‘prematurely negative entrepreneurial exit’ reduction elements in support systems. The first step in this explorative study is to shed light of the concept of entrepreneurial failure or ‘prematurely negative entrepreneurial exit’ which is presented in the next, second paragraph. In the third paragraph the literature is searched for the causes of negative entrepreneurial exit. The findings are validated by semi- and non-structured interviews among entrepreneurs with exit experience. From the causes identified, among educational and entrepreneurial experts an explorative questionnaire and peer review sessions were organised to identify prevention measures which could be proposed to support systems reducing the negative exit scenario. After the conclusions, recommendations are made.

## **2. Definition of negative entrepreneurial exit**

In this paragraph an overview of the concept of entrepreneurial exit from the literature is given. According to (DeTienne, 2010), every venture will once exit this entrepreneurial process. The literature distinguishes two ways of entrepreneurial exit: (i) quit because of good outcome is good or positive (DeTienne, 2010, Wennberg et al., 2010). This is also called positive exit or wanted exit. The second alternative is (ii) because the outcome is not good (Wennberg, 2011, Samuels et al., 2008, Headd, 2003), also called unwanted outages or failure. About half of the cases of entrepreneurial exit refers to situations which are not desirable and in which the entrepreneur, e.g.,(Ottesen and Grønhaug, 2005, Hayward et al., 2006, Simon et al., 2000), and its environment (Vaillant and Lafuente, 2007) have a role in the cause. According to Cardon (2003), about half of the cases of negative entrepreneurial exit, the then called failure seems to be avoidable, because the failure was based on mistakes (firm internal attributes) (Cardon et al., 2011). There is no clear research known to what extends the half of ‘not desirable’ is similar to the half of ‘avoidable’. Research shows that the relationship between positive and negative entrepreneurial exit, after the first seven years, is roughly equal (Wennberg et al., 2010). (Cardon et al., 2011) divide negative entrepreneurial exit further into two categories: tough luck and mistakes by the operator. Focussing on the word of entrepreneurial failure, within the entrepreneurial literature, many different meanings to the word ‘failure’ are used. An often used

and small framed definition is that of ‘bankruptcy’ or ‘insolvency’ (Zacharakis, Meyer and DeCastro, 1999). Other scholars add elements as ‘personal limitations of venture participants’ (Singh et al., 2007) or ‘do not yield enough added values for a reasonable income’ (Everett & Watson, 1998). In accordance with the taxonomy of exit routes (Wennberg et al., 2010), the ‘Distress Sale’ and ‘Distress liquidation’ seem to fit to the purpose of this research. To obtain clarification on an assembly of reasons for venture cessation, a more general definition of failure would be most helpful. In line with often-cited scholars on this topic, failure will be defined as ‘the termination of an initiative that has fallen short of its goals’ (McGrath, 1999). To put this general definition in an entrepreneurial perspective and addressing the role of the entrepreneur, the definition of negative entrepreneurial exit, used in this paper, will be ‘the termination of a venture creation that has fallen short of its goals’.

### **3. Causes of negative entrepreneurial exit**

Based on a literature survey on ‘entrepreneurial exit’, ‘entrepreneurial failure’ and ‘business closure’, the main causes of negative entrepreneurial exit will be discussed and summarized in this paragraph. According to the above-argued definition of negative entrepreneurial exit, the causes can be found either inside or outside the venture. It is argued that internal causes are the far most reason for entrepreneurial failure (Wennberg, 2011), where one third of the small businesses are affected by exogenous factors (Everett and Watson, 1998) as can be allocated to external factors. Because of the fact that small businesses barely can influence the exogenous factors as economic recessions, shortage of raw materials and the appearance of substitution products (FEE, 2004), in this paper only the micro external causes are discussed. Among mistakes, according to (Cardon et al., 2011), issues such as business, mismanagement, unrealistic expectations, pride, finance and innovation mentioned. Other literature indicates that negative entrepreneurial exit is related to resources as for strategic importance for the venture (Michael and Combs, 2008), planning strategies (van Gelder et al., 2006), pride (Hayward et al., 2006), not able to cope with uncertainty (McGrath, 1999), over-optimism and overconfidence (Muir et al., 2007). Baron (2000) and Simon et al (2000) propose, in a more general manner, that a biased point of view has a negative impact on entrepreneurs, which can lead to negative entrepreneurial

exit. Within literature, a study of (Cardon and Potter, 2003) shed light on the main courses of entrepreneurial failure. They studied over 500 citing's of news articles, addressed with entrepreneurial failure. They found that about 54% was caused by mistakes and 45% by misfortune. Focussing on the mistakes, 16% of the citations were caused by mismanagement and 18% by 'Conceptualizing a business and planning out its goals and the method by which to accomplish them...' (Cardon and Potter, 2003, p11). The European Federation of Accountants (FEE, 2004) defines more financial causes of negative venture exit. In their paper, the FEE supplies a 10-item list of internal business failures for SME's: Poor management, deficit in accounting, poor cash flow management, inappropriate sources of finance, dependency on customers or suppliers, impending bad dept., overtrading, poor marketing research and fraud / collusion. In accordance with many scholars, no clear framework of causes could found. Emerging from the many causes of negative entrepreneurial exit identified in literature, in this paper the next classification is proposed: mismanagement, poor concept and personal traits. The author is aware of the scholars might jeopardise this classification; e.g. mismanagement can be moderated by personal traits (van Gelder et al., 2006). For this reason the findings were validated with a field research. In this research 24 entrepreneurs with exit experiences were studied. Non- and semi-structured interviews were conducted with the entrepreneur or privileged witnesses as family or close friends. According to Pires (1997, p.72), it is a way of building up a sample in a homogenous way allowing for describing internal diversity within one population. Based on interview techniques as story-telling and cognitive mapping, were in-depth cognitive concepts can be identified (Khelil and Smida, 2012), the causes found in literature were confirmed by the entrepreneurs. The results are shown in table 1. During the interviews more causes were mentioned then extracted from literature. Partly these could be addressed to the classification, partly not. The latter are put together in a fourth group.

#### **4. Prevention measures**

Based on the above-proposed classification of causes of negative entrepreneurial exit, an explorative survey held on a group of entrepreneurial and educational experts, to identify the possibility for prevention measures identification. The methodology for the survey was predominantly quantitative. First the respondents were asked if they agree on the possibility to

identify preventions measures on general causes given and if they prefer to join the further research. Then from the four classified groups of causes, they were asked to identify the prevention measures. From 10 send questionnaires 7 returned were 6 respondents declared to see possibilities to identify prevention measures in support systems. One respondent indicated not to be interested in exploring qualitative research.

Table 1, identified causes of negative entrepreneurial exit

| Classification  | Identified causes                   |        |                               |
|-----------------|-------------------------------------|--------|-------------------------------|
|                 | Theory                              | Theory | Practice<br>(out of 24 cases) |
| Poor management | lack of financial knowledge         | X      | 4                             |
|                 | no partners involved                | X      | 5                             |
|                 | no experience in the branches (*)   |        | 4                             |
|                 | lack of financial resources (*)     |        | 6                             |
|                 | no social acceptance (*)            |        | 2                             |
| Poor concept    | no clear focus on added value       | X      | 8                             |
|                 | no paying customer group identified | X      | 2                             |
|                 | poor market information (*)         |        | 5                             |
|                 | not enough sales (*)                |        | 11                            |
| Personal traits | taken to much risk (overconfidence) | X      | 5                             |
|                 | hesitating too much on decisions    | X      | 5                             |
| Other causes    | found other job                     |        | 3                             |
|                 | sold with profit                    |        | 3                             |
|                 | bankruptcy                          |        | 8                             |

(\*) not identified in theory but grouped within the classification

Supported by the results of the questionnaire two peer-groups of educational and entrepreneurial were formed and discussed on possible prevention measures. Each peer-group was assembled by 3 entrepreneurial experts like business coaches, venture capitalists and senior entrepreneurs and of 3 educational experts like senior lectures, professors and curriculum designers. There was no relation between both peer-groups and the discussions were held on different times at the same location. With the discussions a researcher chaired the session and a research assistant made minutes the session. A session started with a brief introduction of each participant, followed by the agreement of the aim of the session. In the middle of the discussion table a big sheet with the classes of causes was laid down. During the discussion several individual and all classed causes



were discussed to share each other's understanding of the causes. Individual causes were written at the appropriate classification. On regular basis the participants were asked to address possible prevention measures and write them down on a post-it paper and put them next to the classification or individual cause. The aggregated results are shown in table 2.

After each peer-group discussion the results evaluated. It was agreed that the outcomes, when looking back to the process of peer-discussion, were not spectacular nor felt odd. Somehow they seem to be predictable. Confronting the results with actual entrepreneurship education programmes, not all prevention measures could be identified. These results are shown in table 2 in the last column. The prevention measures not appearing in support-systems yet seem to be hard to implement in standard entrepreneurship education programmes. For example, the prevention measure 'to let nascent entrepreneurs experience the dynamic of failure' cannot be taught from a book or during an internship. Another remarkable aspect is the lack of finding prevention measures for 'find a new job' and 'sold with a profit'. From both peer-groups it was argued that these causes, might feel a negative outcome as the event emerges, but might not be wanted to prevent. Dominantly the entrepreneurs in the peer-groups indicated that a sale, although it might be a distress sale (Wennberg et al., 2010), can be seen as a positive outcome of the entrepreneurial process and therefore is might be better than going with the business and move into a bankruptcy.

## **5. Conclusions and recommendations**

Considering the explorative character, the results of the research show that there are possibilities to reinforce the support systems like educational programmes, to prevent nascent entrepreneurs for premature negative entrepreneurial exit. Some measures seem obvious at first sight, but rarely applied fully in programmes. Other, not practiced measures need a change of the educational culture or maybe paradigm to be able designing effective support systems. The discussed example of the failure experience fits here. Arguments of the aforementioned paradigm shift in entrepreneurship education can be found in the fact that failure rates of starting

entrepreneurs seems not the falling although for more than a decade theories for entrepreneurship education applied.

Table 2, identified prevention measures

| Classification                  | cause                               | prevention measure   | found in support systems |
|---------------------------------|-------------------------------------|--|--------------------------|
| Poor management                 | lack of financial knowledge         | get financial knowledge                                    | X                        |
|                                 |                                     | identify cost-consumers                                    | X                        |
|                                 |                                     | learn to use a bookkeeper                                  | X                        |
|                                 | no partners involved                | learn networking   | X                        |
|                                 |                                     | do not start   |                          |
|                                 |                                     | apply / develop social skills                              | X                        |
|                                 | no experience in the branches       | find partners  | X                        |
|                                 |                                     | do not start   |                          |
|                                 | lack of financial resources         | reduce costs   | X                        |
|                                 |                                     | find investors   | X                        |
|                                 |                                     | learn other business models                                | X                        |
|                                 | no social acceptance                | interact with stakeholders                                 |                          |
| find partners                   |                                     | X  |                          |
| Poor concept                    | no clear focus on added value       | start researching the market                               | X                        |
|                                 |                                     | consult experienced entrepreneurs                          | X                        |
|                                 |                                     | use business development models                            | X                        |
|                                 | no paying customer group identified | make realistic business plans, apply several models        | X                        |
|                                 |                                     | stop starting, keep in the laboratory                      |                          |
|                                 |                                     | do market research   | X                        |
|                                 | poor market information             | do market research   | X                        |
|                                 |                                     | learn networking   | X                        |
|                                 | not enough sales                    | learn market adaption                                      | X                        |
|                                 |                                     | improve sales skills                                       | X                        |
| apply cost reduction techniques |                                     | X  |                          |
| Personal traits                 | taken to much risk                  | get early failure experience                               |                          |
|                                 |                                     | learn to use a bookkeeper                                  | X                        |
|                                 | hesitating too much on decisions    | stop starting the venture (can be observed in the program) |                          |
|                                 |                                     | learn applying decision making tools                       |                          |
|                                 | search for partners                 | X  |                          |
| Other causes                    | found other job                     | -  |                          |
|                                 | sold with a profit                  | -  |                          |
|                                 | bankruptcy                          | learn accounting   | X                        |
|                                 |                                     | learn to cope with losses                                  |                          |
|                                 | learn financial forecasting         | X  |                          |

The identified prevention measure who not applied in existing support systems, provides support for this argument. As an alternative of the failure experience, it is recommended to explore the effects of the increase of resilience to nascent entrepreneurs. Resilience is indicated as a psychological concept that help to overcome the setback after excessive exposure to stress or trauma (Camperbell-sills and Stein, 2007) as the event of e.g. bankruptcy or entrepreneurial failure. Furthermore it is recommended to redesign entrepreneurship education programmes to more action and real-life learning to provide young dynamic starting entrepreneurs with important cognitive baggage for their entrepreneurial journey. In this way an early social relation with possible stakeholders can be created. Furthermore the emotional distance between the relatively passive world of an adolescent, educated by the principles of pedagogy, and the active dynamic lifestyle of an entrepreneur could be reduced. It seems to be worth trying the learning principles of andragogy to this respect (Reischmann, 2004, Henschke, 2011).

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