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The Process of Business Failure: Internal Management Perspectives

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This dissertation is submitted in fulfilment of the requirements for the Degree of Doctor of Philosophy (PhD), National University of Ireland Galway.

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DECLARATION

I hereby certify that this material, which I now submit for assessment on the programme of study leading to the award of Doctor of Philosophy is entirely my own work, that I have exercised reasonable care to ensure that the work is original, and does not to the best of my knowledge breach any law of copyright, and has not been taken from the work of others save and to the extent that such work has been cited and acknowledged within the text of my work.

Signed: _______________________________ Date: ___________________
ACKNOWLEDGEMENTS

I wish to acknowledge and thank everyone who has helped me to complete this interesting journey. In particular, I would like to express my sincerest gratitude to my supervisor, Dr. James Cunningham, without his guidance this thesis would never have been completed. I am forever grateful.

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Thank you all very much, I am extremely grateful.
ABSTRACT

The principal aim of this research is to gain an in-depth understanding into the process of small business failure from an internal management perspective through the exploration of multiple entrepreneurs’ individual business failure experiences and consequential career choices. One of the first researchers to examine the dynamic nature of failure was Argenti (1976) with seminal research that consolidated both the notion of ‘failure as a process’ and ‘failure as an outcome with distinctive, identifiable patterns’, however whilst Argenti acknowledged the impact of bad management on business failure a clear demarcation of management errors specific to each failure path was not clear thus the nuances of the varying failure trajectories which the study devised are not apparent (Ooghe and De Prijcker, 2008). It is these nuances and similarities that this study aims to refine. The core research focus is, ‘How does the process of decline evolve within a firm and what is the causal effect on management actions?’ A major issue raised by Mellahi and Wilkinson (2004, p.31), the fact that “virtually all such studies are limited to one society, the US” shall also be addressed.

The context of this study is the Producing Services Sector, a major subsector of the Irish Information and Communication Technology (ICT) industry. Small firms that closed within five years of start-up are the subject of the research. A subset of the ICT industry was chosen due to its importance to the Irish economy and the fact that the sector was subject to many interesting changes throughout the late 90’s and early 00’s with many segments being subjected to rapid growth, disruptive innovation, deregulation and privatisation all of which in turn led to escalated competition and substantial market investment. A qualitative research design was used and a data-set and corresponding secondary data was derived by running queries on the FAME (Financial Analysis Made Easy) database. Ultimately thirty interviewees from the dataset of two hundred and three agreed to partake in semi-structured interviews and the results were analysed using N-Vivo software.
The study’s findings contributed to the extant literature in three ways. Firstly, many process studies to date have been conceptual constructs (Miller, 1977; Sharma and Mahajan, 1980; Hambrick and D’Aveni, 1988; Richardson et al., 1994; Mellahi, 2005). This study addresses this deficiency of empirically grounded studies in the literature, as it engages entrepreneurs that directly experienced failure rather than merely employing a dataset of secondary information and attempting to apply structure to it as previous studies have done (Weitzel and Jonsson, 1989, Moulton et al., 1996). A second contribution emerges from the insights into the personal and professional affects of failure on entrepreneurs’ lives. The less tangible affects such as learning and stigmatisation are explored. Also the fact that this study explores the entrepreneurs’ progression right through to the period following business failure presents a rich picture of the impacts the failure experience had on their lives and future activities. Thirdly this research provides an increased understanding of a long running debate in the literature, the internal and external causes of business failure. The deterministic and voluntaristic perspectives have long debated whether it is internal or external factors that have a greater amount of influence over the health of corporations. Academics tend to favour one school of thought over the other depending on their discipline, the result of which is a chasm between the two schools of thought as they evolve independently (Mellahi and Wilkinson, 2004). This research has taken both perspectives onboard and as such contributes to reducing the theoretical gaps in the literature as highlighted by Mellahi and Wilkinson (2004).

In addition to addressing the core research focus the study also outlines implications for entrepreneurs and support agencies. Finally, a ‘Business Failure Process Model’ was developed which offers in-depth details into the nature of failure (actions, strategies, outcomes). Furthermore the evolution of the decline process is charted by segmenting entrepreneurs on the basis of their individual experience into a four strand process model – ‘Opportunist’; ‘Pragmatist’; 'Experimentalist”; and ‘Purist’.
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<th>Definition</th>
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<tbody>
<tr>
<td>CAQDAS</td>
<td>Computer Assisted Qualitative Data Analysis Software</td>
</tr>
<tr>
<td>CBO</td>
<td>United States Congressional Budget Office</td>
</tr>
<tr>
<td>CEB</td>
<td>City and County Enterprise Boards</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CIA</td>
<td>Central Intelligence Agency</td>
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<tr>
<td>CORD</td>
<td>Commercialisation of Research and Development</td>
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<tr>
<td>CRO</td>
<td>Companies Registration Office Ireland</td>
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<td>CSO</td>
<td>Central Statistics Office</td>
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<td>CV</td>
<td>Curriculum Vitae</td>
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<td>DETE</td>
<td>Department of Enterprise, Trade and Employment</td>
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<td>DJEI</td>
<td>Department of Jobs, Enterprise and Innovation</td>
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<td>EI</td>
<td>Enterprise Ireland</td>
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<td>EU</td>
<td>European Union</td>
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<td>FAME</td>
<td>Financial Analysis Made Easy</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>FED</td>
<td>Foreign Earnings Deduction</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
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<tr>
<td>IO</td>
<td>Industrial Organisation</td>
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<tr>
<td>IP</td>
<td>Intellectual Property</td>
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<tr>
<td>ISDN</td>
<td>Integrated Services Digital Network</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>JV</td>
<td>Joint Venture</td>
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<tr>
<td>LA</td>
<td>Logit Analysis</td>
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<tr>
<td>Ltd.</td>
<td>Limited Company</td>
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<tr>
<td>MBA</td>
<td>Master of Business Administration</td>
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<tr>
<td>MDA</td>
<td>Multivariate Discriminant Analysis</td>
</tr>
<tr>
<td>NACE</td>
<td>European Classification of Economic Activities</td>
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<td>NUIG</td>
<td>National University of Ireland Galway</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OE</td>
<td>Organisational Ecology</td>
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<td>Abbreviation</td>
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<td>OP</td>
<td>Organisational Psychology</td>
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<td>OS</td>
<td>Organisational Studies</td>
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<tr>
<td>PTO</td>
<td>Public Telecommunications Operator</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
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<td>RTI</td>
<td>Research, Technology and Innovation</td>
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<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
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<td>SUR</td>
<td>Standardised Unemployment Rates</td>
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<td>UK</td>
<td>United Kingdom</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>US</td>
<td>United States of America</td>
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<tr>
<td>USD</td>
<td>United States Dollar</td>
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<td>VC</td>
<td>Venture Capital</td>
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CHAPTER 1: INTRODUCTION

1.1 Introduction

This study examines business failure in start-up SME’s. The research considers the entire process of business failure from the factors that triggered corporate descent to the actions engaged by management as the failure process unfolds. Furthermore the effect of business failure on ones personal and professional life is examined. The result of this study is empirical research that charts the complete failure process; research of this nature has been scarce to date (Cardon et al. 2011). The Information and Communication Technology (ICT) sector is the focus of this study as it is an important industry to the Irish economy and one that has experienced unprecedented growth in the past decade. This chapter details the significance of this research followed by a brief outline of the methodological approaches of the study. The research limitations are touched on in the forthcoming chapter and all these factors are further discussed in the main body of the thesis in more detail. The latter part of this chapter deals with the importance and contribution of the research and also the motivations of the researcher in conducting such research. Finally, the structure of the proceeding chapters of the thesis is previewed in Chapter One.

1.2 Research Rationale and Focus

The central aim of this thesis is to investigate the process of decline that evolves within a firm and the causal effect this has on management actions. A renewed interest in business failure has emerged in recent years, however despite the increasing interest and conversation around business failure in both the popular (e.g. Huber, 1998; Ingebretsen, 1993) and academic press (e.g., McGrath, 1999; Shepherd, 2003; Zacharakis et al., 1999), empirical research into this phenomenon remains scarce (Cardon et al. 2011). Business failure affects both the economy and society; firm collapse may result in increased unemployment and decreased tax revenues (Davis, 1973). Firm closure also has a knock-on
effect on stakeholders, from creditors, distributors and shareholders to customers and suppliers (Wu, 2010). In particular the loss of small firms and start-ups is damaging for a community as their existence brings new knowledge into the economy, embedded in novel products or innovative ways of producing an existing product or service, in a higher proportion of instances new enterprises aid in the diffusion process integrating goods and techniques developed by others, deeper into society (Acs et al, 2005). Thus studying business failure and in particular the failure of SME’s is both important and necessary, nationally and internationally.

1.2.1 Facilitating Greater Understanding

There are difficulties involved in studying business failure and the only way to reduce these issues is through continuous research and developing new techniques. The problem involved in developing a deeper understanding of business failure begins with the lack of a universally accepted definition of business failure. Bruno and Leidecker (1988, p. 51) frame the conundrum when they note, “no two experts agree on a definition of business failure”. The various interpretations of business failure within the literature are best described as shifting goals whereby the range of the dataset either contracts or expands depending on a given academics perception of failure (Cochran, 1981; Bates, 2005). The all-encompassing nature of this study allows the researcher to facilitate a greater understanding into the variations of definitions through the use of in-depth analysis.

The lack of a universally accepted definition has directly contributed to flawed failure statistics primarily due to the inclusion of firms which change ownership, geographical location or legal structure in the business failure statistics (DuToit, 2006). These practices further hinder the viability of international comparisons and the progression of the failure literature. Despite the general consensus in the literature that the lack of a uniform definition is hindering the field of research developing (Pretorius, 2009; DuToit, 2006; Watson and Everett, 1998; Watson
and Everett, 1996; Cochran, 1981), there is no tangible prescription to overcome this as many of the traits which define failure are not visible or measurable on a large scale but are more tacit, instinctive and subjective and therefore require a deeper investigation into the firms in question before they can even be classified by definition. This research aims to facilitate the development of international comparisons through use of the European Classification of Economic Activities (NACE Rev. 2) when identifying the industry of interest, thus the same industry can be identified easily and studied in another country using the same parameters in the future. Furthermore the study’s approach of qualitative, in-depth interviews draws out the tacit side of failure, this allows for an exploration of the issues involved with failure definitions as the subjective nature of collapse is drawn out and explored in greater depth.

1.2.2 Bridging the Gap Created by Quantitative Studies

Business failure studies were popularised in the late 1960’s in the form of failure prediction models. These studies were based on quantitative, statistical techniques and are still widely used today. However, with regards to business failure they are not without criticism as Storey et al (1987) indicated that qualitative studies can be at least as good as financial prediction models at pre-empting firm failure. The non-randomised approach of failure prediction models was also questioned by Balcaen and Ooghe (2006) who argued that it may result in inefficient predictions due to under-representation of particular types of firms. Furthermore, small company accounts (often the basis for failure prediction models) are generally unreliable due to the lack of a system of internal control within small firms; this makes independent confirmation of figures presented in the accounts impossible (Keasey and Watson, 1987). Also a time lag often occurs when small companies draw up their accounts, this delay further hinders the relevance of the information as a useful tool to determine the health of a firm (Keasey and Watson, 1987). The criticism regarding the use of annual account information pertains to financial ratios. Financial ratios are the cornerstone of the majority of classical cross-sectional models (Balcaen and Ooghe, 2006), however much evidence to date highlights the fact that many struggling firms have
incentives to manipulate or falsify their annual accounts using creative accounting practices, this activity is particularly prevalent when the moment of failure is imminent (Argenti, 1976; Ooghe et al., 1995; Charitou and Lambertides, 2003; Rosner, 2003). These factors highlights the shortcomings of utilising business failure prediction models alone and renews the case for engaging qualitative approaches in the analysis of business failure as a means of deepening our understanding of the phenomenon.

1.2.3 Fulfilling Calls for Research

In recent years advancements within the field of business failure has led to the identification of failure as a process rather than an unexpected, unfortunate outcome. This strand of research suggests that a firm evolves through various chronological phases of failure, and if these phases are identified and remedied in time then catastrophic failures can be avoided (Weitzel and Jonsson, 1989; Cannon and Edmondson, 2005). A handful of studies endeavoured to formulate the ultimate trajectory, pathway and/or pattern of failure (Miller, 1977; Sharma and Mahajan, 1980; Hambrick and D’Aveni, 1988; D’Aveni, 1989; Weitzel and Jonsson, 1989; Miller, 1992; Richardson et al., 1994; Moulton et al., 1996; Mellahi, 2005). However these studies did not bridge the gap in the literature as Ooghe and De Prijcker (2008, p. 226) said to date “few researchers have explicitly analysed failure as a process”. Thus the literature remains sparse in this area despite Sharma and Mahajan (1980, p.82) acknowledging in 1980 that a “systematic study of failures requires a model of the underlying failure process”.

In particular there is a dearth of empirical research (Cardon et al., 2011); many studies attempting to model organisational collapse have been based on data from secondary sources and existing literature (Sharma and Mahajan, 1980; Hambrick and D’Aveni, 1988; D’Aveni, 1989; Weitzel and Jonsson, 1989; Richardson et al., 1994; Moulton et al., 1996; Mellahi, 2005). This research will provide empirical research as the dataset engaged in this study was compiled for the sole purpose of investigating the process of business failure.
1.2.4 Influencing Regulators, Practitioners and Academics

An understanding of the complexities of business failure is important to regulators, practitioners and academics (Shumway, 2001). Regulators use the information to monitor the health of various institutions. Practitioners require the knowledge so they are armed with the ability to monitor the internal wellbeing of their own organisation and academics use it to further the discourse on business failure and build a comprehensive literature which in turn will provide the foundations for increasingly accurate business failure research outcomes (Shumway, 2001). The research agenda put forth in this study will contribute in a meaningful way to these facets of society.

1.3 Research Objectives

From a review of the business failure literature the following research objective emerged:

**Overarching Research Objective**

How does the process of decline evolve within a firm and what is the causal effect on management actions?

This is subsequently further broken down into four separate but related research questions, as detailed below:

**Research Questions**

1. What internal and/or external factors impacted upon the process of decline?

2. To what extent was the closure a strategic business decision or was it beyond management’s control?

3. What actions do management take during the advancement of business decline?

4. How does experiencing business failure affect ones personal and professional life?
When considering the research questions and the nature of the phenomena under investigation the use of a qualitative approach and in-depth semi-structured interviews were considered the most appropriate research strategy.

1.4 Methodology

Much of the current literature on business failure present models of organisational collapse based on secondary sources with little or no empirical research being conducted (Richardson et al., 1994; Moulton et al., 1996; Mellahi, 2005). This study seeks to address the deficit in empirical research through a focused and specific research design. The research design uses in-depth semi-structured interviews’ as they are the most appropriate data collection tool given the intricacies and delicate nature of the topic. Additional background data was gathered from the FAME database, company websites and the LinkedIn networking site. This point was arrived at following an extensive period of time immersing oneself in the business failure literature; the researcher devised an overarching research objective upon which to base the study. The research objective was subsequently dissected into four research questions and it was on these questions that that the research agenda focused. The structure of the two findings chapters and the discussion chapter was also informed by the research questions. The outputs of the research are expected to be significant given the importance of the ICT sector to the Irish economy. Furthermore this study will go some way to addressing Ooghe and De Prijcker (2008) and Cardon et al. (2011) calls for more empirical research on the process of firm failure.

Lee and Lings (2008) argue that rather than the researcher choosing a research approach, the research approach chooses the researcher, wherein a suitable approach will emerge depending on ones views and research objectives. Thus in light of the research questions and the nature of the topic being investigated a phenomenological approach was deemed the most suitable research paradigm. Phenomenology is the study of lived experiences and the way those experiences are understood to develop a worldview, it rests on the assumption that there is “a
structure and essence to shared experiences that can be narrated” (Marshall and Rossman, 1999, p.112). The phenomenological paradigm tends to focus in-depth on the experiences of a few individuals to explore in detail deeply held understandings of some facet of their lives (Marshall and Rossman, 1999). Such an approach will ultimately lead to a rich discourse and comprehensive analysis, which shall in turn fulfill the research objectives of the study. **Chapter Three** discusses the study’s research methodology in greater depth.

1.4.1 Research Limitations

The research design and methodology of this study have certain limitations and operate with set assumptions. Firstly, this study’s focus is limited to only examining SME’s in the ICT sector that closed within five years of start-up and were incorporated between 01/01/97 and 31/12/07. Furthermore, there are a relatively small number of entrepreneurs in the sample size that makes generalisability more problematic. Another limitation arises from the fact that the study of the process of business failure is not real time and a longitudinal ethnographic study was not engaged. However according to Sheppard and Chowdhury (2005) some longitudinal methods such as a real time study of events are not appropriate for studying an ex post facto phenomenon, such as failure. Nonetheless, given the deficit of empirically based research it is envisaged that the findings of this study will be of interest and contribute to the field in a meaningful way.

1.5 Originality and Contribution of the Research

This research study addresses an important phenomenon within the small business management and entrepreneurship field, where calls for research of this variety have been made (Ooghe and De Prijcker, 2008; Cardon et al., 2011). Many process studies to date have been conceptual constructs (Miller, 1977; Sharma and Mahajan, 1980; Hambrick and D’Aveni, 1988; D’Aveni, 1989; Weitzel and Jonsson, 1989; Miller, 1992; Richardson et al., 1994; Moulton et al.,
1996; Mellahi, 2005). These studies lacked empirical data. This research addresses this deficiency of empirically grounded studies in the literature. The fact that this research engaged entrepreneurs that directly experienced failure rather merely employing a dataset of secondary information and attempting to apply structure to it like previous studies (Weitzel and Jonsson, 1989; Richardson et al., 1994; Moulton et al., 1996; Mellahi, 2005), highlights the originality of this research and is a major contribution of this study. Ooghe and De Prijcker (2008) and Cardon et al. (2011), highlighted the lack of empirical studies on the process of business failure, it is expected that this research will prompt other researchers to pursue studies of this nature.

An insight into the personal and professional affects of failure to entrepreneurs’ lives is the study’s second contribution. This research gives insights into the nature of failure and the concept of learning from failure. Cope (2011) recognises that although ‘learning from failure’ is regularly cited as an output from ones experience with failure such propositions rarely draw from academically rigorous observations. Additionally the affects of stigmatization as a result of experiencing failure in an Irish setting is also explored which shall in turn address a call for future research by Wiesenfeld et al. (2008, p. 247) into “the influence of national culture on stigmatization and devaluation”. This contribution adds greatly to the contemporary literature on business failure as it is in line with the ‘emotional, softer side of failure’, direction, the discourse is heading in (Wiesenfeld et al., 2008; Cope 2011; Cardon et al., 2011).

A third contribution of this research is in the form of increased understanding of the internal and external causes of business failure. The deterministic and voluntaristic perspectives have long debated on whether it is internal or external factors that have the greater amount of influence over the health of corporations. Academics tend to favour one school of thought over the other depending on their discipline, the result of which is a chasm between the two schools of thought as they have evolved independently (Mellahi and Wilkinson, 2004). This research has taken both perspectives onboard and devised a study with a keen
awareness of the subtleties of each position and as such contributes to reducing the theoretical gaps in the literature as highlighted by Mellahi and Wilkinson (2004). The importance of research which contributes to the convergence of the IO/OE and OS/OP approach to business failure is not to be underestimated as Mellahi and Wilkinson (2004) argued that continuing fragmentation of the literature could lead to a failure of the discourse itself whereby it would become a ‘weed patch’ rather than a ‘well-tended garden’. Thus the value of this contribution is not to be underestimated.

1.6 Thesis Structure and Content of the Research

This thesis has eight chapters and a set of appendices. The structure of the thesis is as follows: Chapter Two examines the academic debates on business failure and an extensive literature review is undertaken in order to establish the lens through which this research is viewed. Chapter Three proceeds to explore the methodological issues relevant to the study whilst Chapter Four sets out the contextual background within which this research is nestled. Chapters Five and Six present the research findings. Chapter Seven comprises of a discursive, analytical examination of the findings and finally, Chapter Eight concludes the thesis.

Table 1.1 Thesis Chapter Outline

<table>
<thead>
<tr>
<th>Chapter One</th>
<th>INTRODUCTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter Two</td>
<td>LITERATURE REVIEW</td>
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<tr>
<td>Chapter Three</td>
<td>METHODOLOGY</td>
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<td>Chapter Four</td>
<td>CONTEXT: ICT SECTOR</td>
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<td>Chapter Five</td>
<td>BUSINESS FAILURE INITIATION</td>
</tr>
<tr>
<td>Chapter Six</td>
<td>MANAGERIAL ACTIONS AND EFFECT OF FAILURE</td>
</tr>
<tr>
<td>Chapter Seven</td>
<td>DISCUSSION</td>
</tr>
<tr>
<td>Chapter Eight</td>
<td>CONCLUSION</td>
</tr>
</tbody>
</table>

Chapter Two, the literature review chapter, charts the development of the business failure literature from its origins in bankruptcy prediction models right
through to its emergence into organisational psychology. The core limitations of existing research are also explored, predominantly the lack of a universal definition of business failure and the sparseness of empirical research into the phenomenon of business failure. The consequences of failure on the individual are then presented and the chapter then concludes by presenting the contributions this research will impart.

Chapter Three presents the research methodology employed for this study. The chapter begins with a presentation of the research paradigms whilst then progressing to detail the suitability of the approach ultimately used by this study. The relevance of the methodological standpoint to the research objectives is also discussed along with the search constraints for the identification of a dataset. The latter part of the chapter focuses on the analytical tools engaged, predominantly NVivo analytical software, in order to make sense of the data collected and finally the rigour and limitations of the study are explored.

Chapter Four opens with a definition of the ICT sector in order to delineate the parameters of the study. It progresses on to highlight the relevance of the ICT industry to the Irish economy, in particular its growth in recent years. The growth of the Irish economy along with policy adaptations implemented by government and their resultant affect on Irish entrepreneurs are also explored. The overall purpose of this chapter is to provide a rich contextual basis for the study and inform the reader of the subtleties that underline the industries development.

Chapter Five focuses on the internal and external triggers of business failure and the nature of the closure. The chapter is structured by research question and then further segmented based on the coding framework that emerged from the conduct of NVivo analysis. The chapter utilises excerpts from the interview transcripts in order to elucidate observations made and present the information most relevant to the fulfilment the research objectives. More specifically the chapter present the factors, both internal and external that triggered the business
failure process and also examines whether firm closures were the result of a strategic business decision or beyond management’s control.

**Chapter Six**, the second findings chapter, focuses on the actions and outcomes of the business failure process. The chapter is once again structured firstly by research question and then segmented by the codes the emerged for the NVivo analysis. This chapter examines the actions taken by management during the process of failure. It also explores the affect experiencing business collapse has on ones personal and professional life. Furthermore the business failure categorisations are introduced in this chapter.

**Chapter Seven** is the discussion chapter. This chapter combines the literature presented in chapter three with the findings detailed in chapters five and six. In doing so the chapter seeks to address the research questions posed and culminates in a summary of how answering these resulted in the fulfilment of the overarching research question. The business failure process model is presented and discussed in this chapter and an analytical discussion on the business failure categorisations that emerged from analysis of the findings is also included in chapter seven.

**Chapter Eight** is the final chapter of this thesis. It represents the conclusion of this study by summarising the main contributions of the study, and its subsequent implications for theory, industry and policy. The chapter concludes by suggesting some avenues for future research.
CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter charts the evolution of the business failure literature from its late 20th century roots in the finance discourse through to its present day vista within the management literature. Despite increasing interest and conversation around business failure in both the popular (e.g., Huber, 1998; Ingebretsen, 1993) and academic press (e.g., McGrath, 1999; Shepherd, 2003; Zacharakis et al., 1999), empirical research into this phenomenon is scarce (Cardon et al. 2011). This partly driven by unclear definitions of what failure is (DuToit, 2006; McGrath, 1999). Additionally most studies fail to distinguish between “the failure of entrepreneurs and the failure of their firms” (Cardon et al., 2011, p.80).

The chapter introduces the concept of business failure and its continuum of definitions across, and within disciplines. A historical analysis of the literature is then presented which provides a comprehensive overview of the current themes and debates that succeed it. The latter section of this chapter discusses the determinism versus voluntarism perspectives of business failure and the concept of failure as a process rather than an instantaneous outcome. Then the approaches taken by management involved in an ailing firm are considered and analysed, the chapter then culminates by examining the societal consequences of business failure.

2.2 Business Failure

The health of a firm operating in a competitive business environment requires it to achieve and maintain profitability and financial solvency. This means that a firm is unhealthy or deteriorating to the extent that it is in jeopardy of failing, when it is no longer able to maintain profitability and financial solvency (Wu, 2010). When businesses fail it affects the economy and society, firm collapse
may result in increased unemployment and decreased tax revenues (Davis, 1973), conversely high ‘churn’ rates (high rate of business founding and exiting) may be considered a sign of economic vibrancy (McGrath, 1999). Firm closure also has a knock-on effect on multiple stakeholders, from creditors, distributors and shareholders to customers and suppliers (Wu, 2010). In particular the loss of small firms and start-ups is damaging for a community as their existence brings new knowledge into the economy, embedded in novel products or innovative ways of producing an existing product or service, in a higher proportion of instances new enterprises aid in the diffusion process integrating goods and techniques developed by others, deeper into society (Acs et al, 2005). Furthermore by their sheer volume, all start-ups intensify competition in the marketplace so they are a desirable addition to a healthy economy and as such it is necessary that they be understood to the best of our ability (Sternberg and Wennekers, 2005).

2.2.1 Defining Business Failure

The difficulties involved in developing a deeper understanding of business failure begin with the lack of a universally accepted definition of business failure. Bruno and Leidecker (1988, p. 51) frame the conundrum when they note, “no two experts agree on a definition of business failure”. To the economist the term “failure” is regarded as a business that earned a rate of return on investment which did not sufficiently cover the opportunity costs (Fredland and Morris, 1976), however many business owners trade off reduced profits in order to gain less tangible, immeasurable, rewards such as increased market share, independence and personal satisfaction (Benz, 2009), as such this classification of failure is difficult to utilise for research. The legal definition of failure is one of the less ambiguous meanings, whereby a company is formally liquidated, or, if the firm is unincorporated the owner is deemed bankrupt for business reasons (Peacock, 2000). Drawing on this definition some studies (Bates, 1990; Bates, 1995; Holmes and Schmitz, 1996a; Åstebro and Bernhardt, 2003) directly relate business exits with failure regardless of the underlying reasons for discontinuance, however survival should not be a proxy for success as it does not
distinguish firms whose strategy includes exiting the marketplace (Headd, 2003). An exit strategy that allows the owner to close or sell their business whilst it is still profitable is a positive process and so should not be categorised as failure (Headd, 2003).

The various interpretations of business failure within the literature are best described as shifting goals whereby the range of the dataset either contracts or expands depending on a given academics perception of failure (Cochran, 1981; Bates, 2005). The scope of the definition of business failure utilised in any given study will have a substantial impact on the resulting rate of failure detected (Cochran, 1981; Watson and Everett, 1996; DuToit, 2006). This is best depicted through use of a funnel diagram as shown in Figure 2.1.

**Figure 2.1 Scope of Business Failure Definitions**

[Adapted from Cochran, 1981]
The topmost section of the funnel represents a “deviation from expected and desired results” as a measure for failure, this clearly is an all encompassing definition loaded with an imprecision which allows almost every firm in existence to fit into its realm in some aspect (Cannon and Edmondson, 2005, p.300). Ceasing to exist is an alternative wide reaching measure for firm collapse as it includes firms which have been wound down for a whole host of reasons such as the owner closing due to retirement or to take advantage of alternative opportunities, this clearly is not a suitable definition for business failure as there is many cases of positive exit strategies being implemented (Headd, 2003). Another commonly cited lexicon for failure stems from Cochran (1981, p. 52) and attributes failure to firms which fail “to make a go of it” regardless of whether losses include capital or not. This definition offers a more focused range than the previous classifications however given the scarcity of publically accessible information on small businesses it is often a difficult definition to utilise in research (Watson and Everett, 1996). Termination to avoid further losses is a further such example of a definition which requires further exploratory research in order to determine a dataset (Ulmer and Nielsen, 1947). Firms falling under this umbrella react to the downfall of the company in a relatively timely fashion thus avoiding failure in its purest form, bankruptcy. Bankruptcy is the legal definition of failure (Alfaro et al. 2008, Ohlson, 1980); it represents the narrow neck of the funnel as it offers the least amount of room for manoeuvre or ambiguity. Bankrupt firms offer precision and ease of identification as they have been subjected to a legal process which is held on record, it is thus a tempting definition to employ in business failure studies however it is rather narrow in its scope as a usable definition of failure (Cochran, 1981). The definition employed by this study is termination, due to its clarity and focus, however the nature of the study allows the researcher to facilitate a greater understanding into the variations of definitions through the use of in-depth analysis.

The lack of a universally accepted definition has directly contributed to flawed failure statistics primarily due to the inclusion of firms which change ownership, geographical location or legal structure in the business failure statistics (DuToit, 2006). These practices further hinder the viability of international comparisons
and the progression of the failure literature. Despite the general consensus in the literature that the lack of a uniform definition is hindering the field of research developing (Pretorius, 2009; DuToit, 2006; Watson and Everett, 1998; Watson and Everett, 1996; Cochran, 1981), there is no tangible prescription to overcome this as many of the traits which define failure are not visible or measurable on a large scale but are more tacit, instinctive and subjective and therefore require a deeper investigation into the firms in question before they can even be classified by definition. Research conducted which fails to do this has led to ambiguity and misinterpretation of the field’s research findings, with differences in the level of business failure documented ranging from a peak of seventy-one percent to a low of thirty-one percent depending on the definition employed (Watson and Everett, 1996). According to Headd (2003) such a chasm in failure rates stems from the lack of distinction between business closures and a business failures. Conversely, Fredland and Morris (1976) argue that discontinuance can be utilised as a proxy for failure, as discontinuance suggests that resources have been shifted to a more profitable project. However a further problem with the concept of discontinuance lies in the fact that there are multiple variations in the definition of discontinuance, some classify discontinuance of ownership whilst others use discontinuance of business (Watson and Everett, 1996). The definition, discontinuance of ownership includes firms that are sold due to the owner wanting to retire, firms sold for a profit and firms sold simply because the owner wants to move on to another venture (Watson and Everett, 1996); it is the inclusion of these entities that skew the failure statistics in a skyward direction.

An understanding of the complexities of business failure is important to regulators, practitioners and academics (Shumway, 2001). Regulators use the information to monitor the health of banks, funds and various institutions. Practitioners require the knowledge so they are armed with the ability to monitor the internal wellbeing of their own organisation and academics use it to further the discourse on business failure and build a comprehensive literature which in turn will provide the foundations for increasingly accurate business failure research outcomes (Shumway, 2001).
A more illustrative depiction of the range of business failure definitions from various perspectives, and the corresponding advantages and disadvantages of engaging each definition as a tool to identify a dataset for business failure research is provided in Table 2.1. The various perspectives towards business failure were chosen as they occur frequently in the business failure research and the various perspectives also highlight the broad range of business failure definitions that are in existence.

**Table 2.1 Business Failure Definitions**

<table>
<thead>
<tr>
<th>Academic Perspective</th>
<th>Definition</th>
<th>Advantages of using definition to identify a dataset for research</th>
<th>Disadvantages of using definition to identify a dataset for research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountant</td>
<td>“wanting or needing to sell or liquidate to avoid losses or to pay off creditors or general inability to make a profitable go of the business” (Gaskill et al. 1993, p. 18)</td>
<td>* Clear * Focused * Specific</td>
<td>* Requires further analysis to identify dataset</td>
</tr>
<tr>
<td>Legislator</td>
<td>“bankruptcy with losses to creditors” (Perry, 2001, p. 201)</td>
<td>* Clear * Focused * Specific * Identifiable * Accessible</td>
<td>* Restrictive * Narrow</td>
</tr>
<tr>
<td>Economist</td>
<td>“deviation from expected and desired results” (Cannon and Edmondson, 2005, p. 300)</td>
<td>* Wide-ranging * Specific</td>
<td>* Excessively Broad * Requires further analysis to identify dataset * Subjective</td>
</tr>
<tr>
<td>Psychologist</td>
<td>failure to “make a go of it” (Cochran, 1981, p. 52)</td>
<td>* Wide-ranging * Allows people involved in business to decide if it was a failure or not</td>
<td>* Requires further analysis to identify dataset * Subjective</td>
</tr>
<tr>
<td>Management</td>
<td>Termination to prevent further losses (Ulmer and Nielsen, 1947)</td>
<td>* Specific * Identifiable</td>
<td>* Narrow focus</td>
</tr>
<tr>
<td>Corporate Social Responsibility</td>
<td>“a firm may be regarded as a failure if it cannot meet one or more of its responsibilities” (Sharma and Mahajan, 1980, p. 82)</td>
<td>* Specific</td>
<td>* Requires further analysis to identify dataset * Subjective</td>
</tr>
</tbody>
</table>
### Strategist

“failure is the misalignment of the organisation to the environment’s realities” (Sheppard and Chowdhury, 2005, p. 240)

* All-encompassing

* Requires further analysis to identify dataset
* Subjective

### Physical

Discontinuance (Ulmer and Nielsen, 1947)

* Identifiable

* Not necessarily failure merely closure, name change etc.

### Organisational Ecologist

“ceases to carry out the routine actions that sustain its structure, maintain flows of resources, and retain the allegiance of its members” (Freeman et al., 1983, p.694).

* All-encompassing

* Requires further analysis to identify dataset
* Subjective

---

The broad range and scope of business failure definitions is clear to see from the previous table. Different disciplines approach business failure from different lenses, the result being incongruent statistics and incomparable research studies on corporate collapse. The scope of the definitions constricts and expands depending on the lens. It is apparent from Table 2.1 that different fields favour different approaches and failure classifications. Furthermore certain definitions are not suitable for large quantitative studies that yield statistics, as further analysis would be required merely to identify a dataset. Thus, to fully understand which definition is most applicable to each individual failure, in-depth qualitative research is the most beneficial. Such an approach can examine each failure case from a personal perspective rather than blanket defining an entire dataset in order to adhere to a predefined classification.

In addition to the vast array of definitions for business failure an obstacle to adequately examining small business failure in particular is the fact that small firms are not subjected to the same rigorous, formal reporting requirements as larger companies (Keasey and Watson, 1987; Watson and Everett, 1996)). Thus obtaining adequate, comparative and reliable information on small firms to assess economic performance is, in most cases, not achievable. Small company accounts are generally unreliable due to the lack of a system of internal control.
within small firms, this makes independent confirmation of figures presented in the accounts impossible (Keasey and Watson, 1987). Also a time lag often occurs when small companies draw up their accounts, this delay further hinders the relevance of the information as a useful tool to determine the health of a firm (Keasey and Watson, 1987). This drives many researchers to identify and define failed firms based on data that is available which in most cases is discontinuance of the firm for any reason and formal bankruptcy proceedings, Watson and Everett (1996 p. 47) refer to this as a “surrogate measure of failure”. Thus meaning many researchers are guided to the most appropriate failure definition based on the dataset available rather than vice versa, so a trade-off exists between ease of access to a dataset and an appropriate definition of business failure. This further blurs the lines and hinders the reliability of studies.

It is also worth noting that a further complication in the treatment of small firms occurs in the area of ownership transfers, they promote skewed statistics through the inconsistency of treatment. Transfers of ownership by corporations are treated differently from transfers of ownership by partnerships or sole traders (Watson and Everett, 1996). When a partnership or sole trader sells their business or changes the business’s format it is generally regarded as a discontinuance of one business and the start-up of another whereas the transfer of shares in a firm is generally not treated as a business discontinuance (Watson and Everett, 1996). Thus partnerships and sole traders are perceived to discontinue more frequently than comparable corporate entities (Watson and Everett, 1996).

2.2.2 Strategic Intention

A further indicator of entrepreneurial venture failure, or indeed success is the extent to which the outcome of the venture matches the entrepreneur’s intentionality at the beginning of the venture. Intentionality is a state of mind directing a person's attention and thus their experience and action toward a specific goal in order to achieve something (Bird, 1988). More specifically Bird (1988, p.443) defines entrepreneurial intentions as being “aimed at either
creating a new venture or creating new values in existing ventures”. Furthermore, Krueger et al. (2000) claim that intention-based models can be used for strategic decisions such as the decision to exit. Thus, whilst a firm closing down can be perceived by society as a negative occurrence in certain situations it may be aligned with the intentionality of the entrepreneur. For example, an entrepreneur begins a firm as a means of tapping into a particular network of individuals. Once they are part of their desired cohort they leverage their position in the network to begin more ambitious ventures with peers from their new social group, thus their initial venture will have served its intent and can be shutdown.

Further factors that broaden the range of business failure definitions lie in the diverse approaches to business and management and in particular the nature versus nurture divide. The nature versus nurture divide encompasses two opposing schools of thought on factors that impact an organisation. Those from the nature perspective regard external factors as being most influential to a firm’s health whilst those from the nurture perspective posit that it is internal, management approaches that most affect a firm’s wellbeing. This will be discussed at length in Section 2.3.

2.3 Nature versus Nurture

An embedded analogy within the field of sociology is one that compares formal social systems with biological organisms (Katz and Kahn, 1966; Hannan and Freeman, 1977, Whittaker et al., 1973). The fundamental difference between biological evolution and the evolution of firms is that organisations are ideally run by individuals acting in a strategic manner with the intention of becoming increasingly fit for survival, whereas “the process of evolution of biological species cannot be planned” (Ormerod, 2005, p.xi). At one end of the spectrum is a “full information, rational maximising agent of conventional economics” and the other end of the spectrum is an “agent possessed of no cognitive ability whatsoever, with no information and no way to analyze it usefully” (Ormerod, 2005, p.141). Yet both organisational entities and biological species struggle
against extinction despite their divergent approaches to life. The term ‘milieu’ has been employed to refer to conditions external to an organisational unit over which individuals in the unit have little control (Ulrich, 1987). This contrasting approach to existence which usually, ultimately ends in the same fate of extinction has ignited a debate in the field of organisational management theory, whereby firms fail due to being a victim of nurture (i.e. the ‘full information, rational maximising agent of conventional economics’ makes poor decisions which ultimately result in the downfall of the firm) or nature (i.e the agent possessed of ‘no cognitive ability whatsoever, with no information and no way to analyze it usefully’ falls victim to its environment). Whilst this example displays an overly simplistic view of the competing schools of thought, it succeeds in communicating the expansive spectrum of opinion.

The literature on organisational failure is widely dispersed and has splintered off into diverse disciplines, namely the deterministic school, encompassing industrial organisation and organisational ecology (IO/OE) and the voluntaristic school, which comprises of organisational studies and organisational psychology (OS/OP), each made up of their own assumptions and theories as detailed in Table 2.2 (Mellahi and Wilkinson, 2004). It is in a sense an endogenous versus exogenous divide, as there is a clear distinction made between both the internal and external factors which impact upon the performance of a firm (Kotha and Nair, 1995; Hansen and Wernerfelt, 1989).
Table 2.2 Voluntaristic versus Deterministic

<table>
<thead>
<tr>
<th>Theoretical Origin</th>
<th>Nature/Voluntaristic</th>
<th>Nurture/Deterministic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premise</td>
<td>Organisation are embedded in their environments thus external factors have more explanatory power than firm level factors</td>
<td>Who makes the decision is regarded as being more important than the external context within which the decision is made</td>
</tr>
<tr>
<td></td>
<td>Failure is caused by external factors over which management has little or no control</td>
<td>Failure is linked to internal inadequacies in dealing with external threats</td>
</tr>
<tr>
<td>Causes of Failure</td>
<td>Changes in consumer tastes</td>
<td>A manager’s perception of a situation, their motivations, feelings, and experiences all influence whether they respond to organisational crises appropriately or not</td>
</tr>
<tr>
<td>Include</td>
<td>Cyclical decline in demand</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increased competition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Technological uncertainty</td>
<td></td>
</tr>
<tr>
<td>Key Authors</td>
<td>Boone and Van-Wittelostuijn, 1995; Sutton, 1991; Dunne et al., 1988; Dess and Beard 1984; Hannan and Freeman 1977; Balderston, 1972</td>
<td>Fredland and Morris, 1976; Malone, 2004; Finkelstein, 2005; Pitts, 2008; Ooghe and De Prijcker, 2008; Wiesenfeld et al., 2008</td>
</tr>
</tbody>
</table>

One of the long running debates in the business failure literature centres on the causes of organisational failure. On one side there are the classical industrial organisation (IO) and organisation ecology (OE) academics who assume a deterministic role of the environment, basically arguing that it is exogenous...
factors which have the most effect on a firm’s chances of survival. Whilst the organisational studies (OS) and organisational psychology (OP) approach takes a voluntaristic outlook, whereby managers are the main decision makers within a firm therefore their decisions and perceptions greatly affect the firm and thus management is the fundamental cause of firm collapse (Mellahi and Wilkinson, 2004). It should be noted that there is a third theoretical approach that integrates the importance of both a firm's internal competencies and external environment as a means of achieving sustained competitive advantage. Dynamic capability theory centres on "the capacity of an organisation to purposefully create, extend or modify its resource base" (Helfat et al., 2007, p.1). Augier and Teece (2009, p.412) disaggregate dynamic capabilities into three classes: "the capability to sense opportunities, the capacity to seize opportunities, and the capacity to manage threats through the combination, recombination, and reconfiguring of assets inside and outside of the firm's boundaries". The theoretical explanation of business failure would be that it is a failure of internal capabilities to achieve environmental fitness, caused by a combination of poor adaptation and/or rapid and overwhelming change. However, at this time, no significant work on business failure has developed out of this literature. The deterministic approach will be discussed further in section 2.3.1 whilst section 2.3.2 will examine the voluntaristic approach in greater detail.

2.3.1 Deterministic View

The deterministic perspective of business failure posits that industry is more significant than the firm; failure, according to determinists, is “caused by external factors over which management has little or no control” (Mellahi and Wilkinson, 2004, p. 22). The Industrial Organisation (IO) and Organizational Ecology school of thought are two such perspectives that encapsulate the deterministic view, both of which shall be discussed further in sections 2.3.1.1 and 2.3.1.2.
2.3.1.1 Industrial Organisation (IO)

The IO perspective is grounded in economics. It is concerned with the environmental conditions within which firms operate and also how firms interact and behave in the marketplace. There is no internal approach taken by the IO perspective as it is predominantly concerned with a particular industry as a whole and also competitor’s interactions within said industry rather than individual outlooks. It is a perspective which is “underpinned by the Schumpeterian thesis of creative destruction”, whereby jolts in the external environment result in waves of organisational failure (Mellahi and Wilkinson, 2004, p.23; Schumpeter, 1942). IO scholars have identified some interesting results to warrant serious consideration of the perspective as a valid system for industrial studies. It has been found that the “ranking of industries by concentration level tends to be closely similar from one country to another: an industry that is dominated by a handful of firms in one country is likely to be dominated by a handful of firms elsewhere too” (Sutton, 1991, p.3). Additionally a study by Dunne et al. (1988) highlighted how entry and exit patterns differ considerably across industries whilst a high degree of correlation exists between entry and exit across industries, in fact the variances in industry entry and exit patterns even persist over time (Boone and Van-Witteloostuijn, 1995). Thus it can be deduced from these findings “that substantial, systematic heterogeneity exists between organisational populations and that some underlying characteristics of industries strongly constrain equilibrium structures” (Boone and Van-Witteloostuijn, 1995, p. 276).

Three underlying assumptions reflect the IO perspective: Firstly, pressure and constraints are imposed on the firms’ strategies that would lead to failure, by the external environment. Secondly, it is assumed that a similar strategy is pursued by most firms operating in the same industry, or within a certain segment of the industry, and finally decision makers in organisations are assumed to be rational agents acting in the firms best interests and thus failure could not be caused by them alone (Mellahi and Wilkinson, 2004, Arthurs et al. 2008). According to the IO literature the primary causes of business failure are likely to stem from
adaption’s in consumer tastes, cyclical demand declines, increased competitive forces and turbulent demand structures due to low switching barriers for core customers (Baum and Singh, 1994; Sheppard, 1995; Mellahi and Wilkinson, 2004). Other factors cited as influencing the lifespan of firms result from factors such as technological change, economic change, regulatory change and demographic change (Scott, 1992; Anderson and Tushman, 2001). An external cause of business failure that holds particular importance for this study stems from technological uncertainties induced by product and process innovations (Slater and Narver, 1994). Technological uncertainty is at its height during the time when one particular technological regime replaces another, yet it is unclear which variant of the new technology will become the industry’s accepted norm (Tushman and Rosenkopf, 1992; Anderson and Tushman, 2001). Technological change can overturn existing industry structures and in keeping with Schumpeterian tradition interims of intensive change and technological progress alternate with periods of relative stability and incremental advance (Anderson and Tushman, 2001).

The relationship between organisations and the environment can be explained by three factors: munificence, complexity and dynamism (Dess and Beard 1984). Munificence refers to the availability of resources and complexity pertains to the complex linkages both within a firm and between a firm and its external networks (Dess and Beard, 1984) IO scholars suggest an adverse relationship between the availability of resources and the organisational mortality rates and a positive correlation between environmental complexity and the organisational mortality rate (Anderson and Tushman, 2001). Dynamism refers to unpredictability and an absence of pattern, it is an uncertainty that results in the “inability to predict or foresee” (Anderson and Tushman, 2001, p.683). In unpredictable environments success can be fragile rather than enduring and a higher proportion of firms survive because they are lucky, not because they are good (Barnett and Hansen, 1996). Learning curves are shallower in an unpredictable environment and the turbulence may lead to entrepreneurs revising their expectations, consequently this may require individuals to unlearn lessons of the past (Hedberg, 1981 as cited in Anderson and Tushman, 2001).
The arguments presented by the Industrial Organisation researchers puts forth the marketplace within which a firm is operating as the key influencer on a firm’s chances of survival and success. As such external market forces such as cyclical demand declines and turbulent demand structures are regarded as having more impact on a firm’s wellbeing than the manner in which a firm is managed (Sheppard, 1995). Another facet in the deterministic school of thought is the Organisational Ecologists; once again academics in his strain posit that external factors are more influential than internal factors when it comes to firm survival (Dess and Beard, 1984).

2.3.1.2 Organisation Ecology (OE)

The OE perspective regards organisations as entities that react slowly to changes in the environment and as such are characterised by structural inertia (Hannan and Freeman 1977). As organisations are required to be reliable and accountable for their actions organisational structures that guide day to day activities need to be highly reproducible and dependable, thus rules and regulations that ensure reliability and accountability must remain in place and actions with a stable process blueprint will be chosen over a less controllable action in an effort to ensure consistency and stability (Boone and Van-Wittelostijn, 1995). As such organisational dissolution, according to an organisational ecologist, occurs when an organisation “ceases to carry out the routine actions that sustain its structure, maintain flows of resources, and retain the allegiance of its members” (Freeman et al., 1983, p.694). The premise of OE is one that believes organisations require a high degree of structural inertia and this is a criterion for survival (Hannan and Freeman, 1984). Structural inertia is derived from internal structural arrangements and environmental constraints, however it specifically refers to the core characteristics of an organisation (Hannan and Freeman, 1977). The organisations environment generally negatively evaluates adaptations to the core of an organisation, whereas changes in the periphery are usually positively evaluated (Hannan and Freeman, 1984). The main purpose of organisational ecology is “to understand the mutual interactions within and among the populations and communities comprising organisational ecosystems and the
mechanisms and processes underlying their growth, regulation and decline” (Baum and Singh, 1994, p.5). The main components considered important by organisational ecologists are organisational age (Stinchcombe, 1965; Henderson, 1999); organisation size (Barnett and Amburgey, 1990; Hambrick and D’Aveni, 1988); population density (Hannan and Freeman, 1988) and industry life cycle (Balderston, 1972). The latter factor posits that firms follow a predefined sequence independent of firms’ strategies and managements whereby organisational failure is a natural irreversible phenomenon inherent to efficient market operation (Klepper, 1997).

Another facet of OE is niche width theory (Hannan and Freeman 1977) this focuses on environmental variability as a means of explaining differential survival rates, firstly the specialist, which possess few slack resources and concentrate on exploiting a narrow range of customers, and secondly generalist, which appeal to the mass market and exhibit tolerance for more varied environments. Generalists drive out specialists in fluctuating environments, and the reverse is true in stable environments (Hannan and Freeman, 1989). Overall the OE perspective is built on population density dependence logic (Hannan and Freeman, 1989) this views organisational mortality rates to be dependant on the total number of firms within the relevant population. A U-shaped relationship is suggested between density and failure, organisational mortality starts high and falls as legitimacy increases, it then begins it rise again as competition increases (Hannan and Freeman, 1988). The aforementioned determinants relied upon by OE demonstrate the overwhelming support for the perspective that organisations are essentially embedded within their environments and as such environmental factors have more influence than organisational factors. It is argued that as environments change faster than organisations, the performance of the firm is dictated by the environment within which it operates rather than the firm’s strategic choice (Mellahi and Wilkinson, 2004). Organisational ecologists have accumulated a wealth of empirical evidence from a diverse range of organisational settings however a trade-off has been favoured to the extent that generality of theories have been sacrificed for precision and realism (Singh, 1993). Another
the fundamental weakness in the perspective stems from the fact that the hard data gathered, such as firm size, age and density reveal little about the theoretical explanations underlying the empirical regularities.

The deterministic perspective of strategy formulation argues that firms should adapt to their environments because characteristics of the environment favour particular strategies over others. Also if chances of survival are low for a certain variant it does not mean that organisations in this industry are destined to fail rather that the ability of management to change the organisation is of particular importance. It has been argued that OE approaches do not relinquish individuals from responsibility over their organisations success, regardless of rather their actions are intelligent or foolish, planned or improvised, individuals do exert influence over organisations future (Baum and Amburgey, 2002). However in times of uncertainty and ambiguity, severe constraints are placed on the ability of bounded rational individuals to consistently conceive and implement changes that improve organizational success and survival chances in the face of competitive forces (Baum and Amburgey, 2002). Thus, “in a world of high uncertainty, adaptive efforts ... turn out to be essentially random with respect to future value” (Hannan and Freeman, 1984, p.150). Environmental determinism was challenged by Jay Bourgeois (1984, P.589), who stated that the “strategic decisions made by my managers cannot be assumed to be the product of deterministic forces in their environment. Any such assumptions would eliminate the very need for management because it implies that the strategy of an organisation follows more or less automatically from a technical appreciation of its environmental situation. On the contrary, the very nature of the concept of strategy assumes a human agent who is able to take actions that attempt to distinguish one’s firm from the competitors”. The OI/OE perspective regards external factors as the predominant cause of firm collapse and these factors tend to be out of the control of management and are often dependant on the economy and the decisions of policy makers. The most common external factors are interest rates, the external price environment and inflation, wage costs, declining markets, tax rates, market competition, bad debts and late payments. Presently, the external factors throwing firms into disarray are likely to stem from difficulty in raising capital,
low consumer confidence and a decimated global economy due to the financial meltdown.

2.3.2 Voluntaristic View

The central premise of the OS/OP literature is that who makes a decision is more important than the external environment within which the decision is made (Mellahi and Wilkinson, 2004). The OS/OP approach views internal factors as main precursor of business failure, and these endogenous factors are unique to the firm in question and vary between companies. Management practices, accounting practices, marketing decisions and financial planning are all examples of internal factors that impact upon a firm’s performance. It has been suggested that it is actually internal factors that has a greater impact on the overall performance of a firm (Hansen and Wernerfelt, 1989; Fredland and Morris, 1976). In fact Malone (2004, p.18) makes reference to research findings that discovered that just over 18 percent of business failures were outside of the control of their leader’s. This sentiment is reiterated by Ooghe and De Prijcker (2008, p. 237) whose research found that unsuccessful start-ups did not find any threat from its general environment except in recessionary times. Much of the internal research identifies causes that collectively represent ‘bad management’ as the primary root of business collapse (Kennedy, 1985; Haswell and Holmes, 1989; Hambrick and D’Aveni, 1992; Chowdhury and Lang, 1993; Beaver and Jennings, 2005; Finkelstein, 2005; Ooghe and De Prijcker, 2008). A common problem attributed to small enterprises is that senior management responsibility is primarily invested in one person, who is unlikely to possess the entire spectrum of skills required to start and develop a new business (Richardson et al, 1994). The voluntaristic approach will be examined in further detail in the following sections with specific reference to Organisation Studies and Organisational Psychology perspectives.


2.3.2.1 Organisation Studies (OS) / Organisational Psychology (OP)

Essentially the OS/OP perspective regards failure as occurring due to internal inadequacies in dealing with external threats (Mellahi and Wilkinson, 2004). Argenti (1976) uses an interesting analogy of a sinking ship to sum up the collapse of a company at the hands of an ineffective manager:

‘If a ship is in good condition and the captain is competent it is almost impossible for it to be sunk by a wave or a succession of waves. Even if there is a storm, the competent captain will have heard the weather forecast and taken whatever measures are needed. Only a freak storm for which inadequate notice has been given will sink the ship’.

This quote mirrors the sentiments of Sheppard and Chowdhury (2005) discussed earlier, in fact a common theme, which appears amongst the process models is the view that management is regarded as “the origin of most problems” (Ooghe and De Prijcker, 2008, p.234). According to Dillon and Tinsley (2008) the actions of management in the face of adversity are very much related to past experiences, if the firm has escaped from failure previously due to a problematic situation then management will be far more likely to make riskier decisions in the future despite any reasonable reservations they may have. This relates to the arrogance and complacency which success (or basically, lack of failure) can breed within a firm, as learning from repeated successes can have a strong affect on a company and act as a straight-jacket which changes it from its once agile, adaptive state to one of structure and process (Baumard and Starbuck, 2005). Such complacency results in poor decision making from management and there seems to be a general consensus in the literature that poor decision making is the cornerstone of managerial mistakes and thus, of business collapse (Miller, 1992).

Finkelstein (2005) notes that many failures are essentially a product of the companies CEO, and Richardson et al (1994, p.9) states that the job of curbing or reversing potential business failure lies “first and foremost, to organisations’ top managers”. Additionally Wiesenfeld et al. (2008, p. 237) noted that failures
contain the “hallmarks of mismanagement”. However, it is Hambrick and D’Aveni (1992, p.1450) who go a step further and declare that it is often “strong-willed, dominating” and “egomaniacal” executives that are “at the helms of unsuccessful firms”. These sentiments relate directly to the upper echelon theory (Hambrick and Mason, 1984) which argues that a manager’s characteristics, beliefs and perceptions influence the decisions which they make and thus ultimately affects a firm’s performance or lack thereof. In that sense the way an entrepreneur runs their business is almost an extension of their own personal social value system and is therefore highly impacted by the characteristics and believes of its founder rather than environmental forces (Finkelstein and Hambrick, 1996; Hambrick, 2007). As argued by Sheth and Sisodia (2005, p.29) “an organisation’s unwillingness to change comes from the myopia of its leadership, an inability to change, on the other hand, come from its processes”. Furthermore Pitts (2008, p. 17) postulates that a “business will have the blueprint of the leaders personality ingrained into it”.

The number and variety of experiences that an individual has affects the way in which an individual reacts and responds in various situations (Barker, 2005). Also career variation has an influence, as people who have spent an entire career in the same organisation often have limited perspectives (Hambrick and Mason, 1982). Research also indicates that when a firm is faced with an external threat a new manager tends to view the cause of the crisis as internal, controllable (Mellahi and Wilkinson, 2004). However long serving managers have a tendency to attribute failure to external, uncontrollable and temporary causes and as such are inclined to ignore internal stimulants to business failure which as such accelerates the problem (Mellahi and Wilkinson, 2004). It has also been noted that people are prone to taking credit for their own successes but have a tendency to blame failures on circumstances beyond their control (Barker, 2005).

Organisational decline represents a gap between performance and aspirations (Mone et al., 1998). Organisational learning scholars argue that decline stimulates adaptation, search processes and organisational change (Cyert and
March, 1963; Kiesler and Sproull, 1982) however, threat rigidity effect theorists regard decline as an inhibitor of cognitive processes and a restrictor of decision-making, thus reducing the number of options considered by managers which in turn reduces organisational change and adaptation (Staw et al., 1981). The premise of the threat rigidity effect theory is that individuals, groups and organisations have a tendency to behave rigidly in threatening situations and attempt to maintain status quo (Mellahi and Wilkinson, 2004). Management run the risk of making poor choices when faced with the stressful conditions experienced through firm difficulty. A choice such as enforcing cost cutting measures when a firm is already in a weak strategic position is more likely to place the firm in a worse position strategically than strengthen the case for survival (Mellahi and Wilkinson, 2004). Issues such as this is ‘error-amplifying decision traps’ whereby a poor response to a problem merely results in exacerbating the issue rather than rectifying it (Schulman, 1989).

The ‘curse of success’ is another facet of firm collapse that is discussed in the OS literature (Kelly and Amburgey, 1991; Miller, 1992; Starbuck et al 1978; Argenti, 1976). Learning from repeated successes make future failure more likely as periods of continued prosperity foster structural and strategic inertia, extreme process orientations, inattention and insularity (Baumard and Starbuck, 2005). In a sense management become dazzled by success and complacency sets in (Ooghe and De Prijcker, 2008). Furthermore, Dillon and Tinsley (2011) argue that individuals who have narrowly escaped failure in the past choose significantly riskier alternatives in the future than those who have not experienced near misses. The near miss is seen as a success thus reducing perceived risk and increasing ones comfort with risky decisions. Having the ability to recognise failure helps entrepreneurs gain further insights into success, “failure is not a lack of success but an integral part of it” (Thorne, 2000, p.306). Constant success on the other hand breeds failure; it can make companies complacent and even arrogant, firms can get “locked in to certain orthodoxies and therefore do not take charge of their own destinies fast enough” (Sheth and Sisodia, 2005, p.28).
The experience of failure can ultimately lead to the path to success; a scenario termed a ‘successful failure’ (Kriegermann et al., 2005), whereby individuals are provided with a personalised learning experience as they learn from their own failure trajectory. Other scholars (Schoemaker and Gunther, 2006) suggest making ‘deliberate mistakes’ as a means of combating failure as, if one of a company's core assumptions is wrong, the firm can achieve success faster by deliberately making errors than by considering only data that support the assumption. A factor that may inhibit learning from failure is stigmatisation, as labelling failure negatively affects both entrepreneurs and organisations that fail to learn from it (Thorne, 2000). However according to Malone “the ability to fail and bounce back seems to be a common characteristic among successful owners” perhaps because they realise they do not know everything and are more willing and receptive to learning (2004, p. 20).

Prior to the debate of internal and external factors and their resultant affect on firm wellbeing, the business failure literature was dominated with failure studies from an accounting perspective (Beaver, 1966; Altman, 1968; Ohlson, 1980; Scott, 1981). These studies engaged ratios and accounting measures to create prediction models as a means of furthering understanding of business failure causes and the chances of failure occurring. In order to chart the progression of the business failure literature to its current position these prediction models are examined next in section 2.4.

2.4 Bankruptcy Prediction Models

The genesis of business failure research can be traced back to the late 1900’s when the establishment of commercial banks greatly increased the flow and spread of financial information (Horrigan, 1968). However it was not until the years following the 1930’s recession which studies began to identify that failing companies display considerably different ratio measurements to continuing businesses (Fitzpatrick, 1932; Smith and Winakor, 1935; Merwin, 1942). The development of an empirical foundation of ratio analysis that these early studies
created, paved the way for the more sophisticated studies that came to the fore in the late 1960’s. It was the seminal works of Beaver (1966) and Altman (1968) that ignited a profound new interest in the prediction modelling method of predetermining corporate distress and has led to its current position of being considered a major research field within corporate finance (Balcaen and Ooghe, 2006).

Beaver (1966) and Altman’s (1968) respective studies demonstrated bankruptcy prediction models, which began dominating the field of research particularly in the US. Most models are created using a paired-sample technique. One category of data consists of identifying criteria pertinent to firms that eventually failed such as high level of debt, poor cash liquidity etc. and the second category comprised of firms with contemporaneous data, which did not fail. Financial data for both categories of firms are then feed into a database and analysed to determine which financial attributes are consistent and/or which are significantly different between the viable firms and failed firms. The data is then analysed in an effort to identify a formula, “based either on a single ratio or a combination of ratios, that best discriminates between firms that eventually failed and firms that remained solvent” (Scott, 1981, p.320).

Beaver’s (1967a) pioneering research presented a financial ratio model in the form of univariate discriminate analysis. This model utilised three important ratios, namely, cash flow to total debt, net income to total assets and total debt to total assets, through a dichotomous classification test. The research found that using these ratios individually had the propensity to flag struggling firms for as long as five years prior to failure ensuing (Altman, 1993; Cahill, 1997). Altman (1968), subsequently, building on the foundations laid by Beaver (1967), employed the multivariate discriminate analysis technique, which is “a statistical technique used to classify an observation into one of several a priori groupings dependent upon the observation’s individual characteristics…in its most simple form (it) attempts to derive a linear combination of these characteristics which ‘best’ discriminates between groups” (Altman, 1993, p.182). Altman’s
multivariate discriminant analysis produced a set of ratios which combined to determine a ‘Z score’, Altman, Haldeman and Narayanan (1977) later adapted this model to an enhanced version known as the Zeta analysis model which in turn dominated the literature on business failure prediction until the 1980’s (Balcaen and Ooghe, 2006). Whilst multivariate discriminant analysis is still a generally accepted method of analysis it has been largely replaced by more straightforward techniques such as logit analysis, probit analysis and linear probability modelling. Logit analysis is the most popular of the three and was first forged by Ohlson (1980); it claims greater accuracy in its predictive abilities as it combines various firm characteristics into a multivariate probability score (Cahill, 1997). Prediction models are still widely used today and are particularly helpful at illustrating the financial health of a company, however, with regards to business failure they are not without criticism as Storey et al (1987) indicated that qualitative studies can be at least as good as financial prediction models at pre-empting firm failure. The non-randomised approach of failure prediction models was also questioned by Balcaen and Ooghe (2006) who argued that it may result in inefficient predictions due to under-representation of particular types of firms.

2.4.1 Prediction Models Appropriateness Waning?

Several forces have affected the appropriateness of predictive models in recent years; including an increase in the relative importance of intangible assets and financial derivatives in the past two decades and a perceived increase in the degree of discretion used when entering financial statements (Beaver et al., 2005). The former force impacts predictive models as intangible assets and financial derivatives are not adequately captured by extant financial ratios and given that such assets maybe important commodities this omission constitutes potentially important variables. The latter force has the potential to either enhance or impair prediction precision, as the statements may be informed by significant private information known only to the company’s internal management. Conversely such internal discretion may be utilised to obscure important aspects of a firm’s financial performance, a look back at recent years
can attest that this opportunistic behaviour is not uncommon (Beaver et al., 2005; Fich and Slezak, 2008). There is a perception that discretion in reported financial statement amounts has substantially increased over time although it is uncertain if this is due to an actual increase or simply that cases of discretion have become better documented in recent years, however the findings of Beaver et al. (2005) study and Fich and Slezak’s (2008) empirical analysis is consistent with the view that there is a deterioration in the predictive ability of financial ratios due primarily to increased discretion.

The utilisation of the linear classification rule, the use of annual account information and the neglect of the multifaceted nature of failure are other such issues with classical failure prediction models highlighted by Balcaen and Ooghe (2006). The assumption of linearity exists in univariate corporate failure prediction models whereby if a firm’s value for a certain predictor is lower than a particular cut-off point this signals weak financial health, and vice versa (Balcaen and Ooghe, 2006). However this assumption is often violated as some variables indicate financial problems when the variable’s value is very low or very high (Keasey and Watson, 1991). The criticism regarding the use of annual account information pertains to financial ratios.

Financial ratios are the cornerstone of the majority of classical cross-sectional models (Balcaen and Ooghe, 2006), however much evidence to date highlights the fact that many firm unhealthy firms have incentives to manipulate or falsify their annual accounts using creative accounting practices, this activity is particularly prevalent when the moment of failure is imminent (Argenti, 1976; Ooghe et al., 1995; Charitou and Lambertides, 2003; Rosner, 2003). Annual accounts may be particularly unreliable for smaller firms due to the lack of an internal control system (Keasey and Watson, 1987), also auditors may make annual account adjustments in light of a bankruptcy filing, commonly referred to as ‘accommodated’ annual accounts (Charitou and Lambertides, 2003). Thus unreliable annual account information results in failure prediction models based on financial ratios being distorted and as such limits their practical usefulness.
and application (Balcaen and Ooghe, 2006). Furthermore failure prediction models based on annual accounts implicitly assume that all relevant success and failure indicators are reflected in the annual accounts however this is simply not the case (Argenti, 1976; Zavgren, 1985; Maltz et al., 2003). Argenti (1976, p. 138) stated that, “while ratios may show that there is something wrong… I doubt whether one would dare to predict collapse or failure on the evidence of these ratios alone”. Zavgren (1985, p. 22-23) further bolstered the argument by postulating that, “any econometric model containing only financial statement information will not predict with certainty the failure or nonfailure of a firm”.
<table>
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<tr>
<th>Bankruptcy Prediction Model</th>
<th>Basic Idea</th>
<th>Core Authors</th>
</tr>
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<tbody>
<tr>
<td><strong>Univariate Analysis</strong></td>
<td>The univariate logistic approach is employed to evaluate the predictive ability of each variable for one, two and three years prior to failure occurring (Beaver, 1966). It is an extremely simple technique that is based on a stringent assumption of a linear relationship between all measures and the failure status (see Balcaen and Ooghe, 2006).</td>
<td>Beaver (1967) Appetit (1984)</td>
</tr>
<tr>
<td><strong>Risk Index Models</strong></td>
<td>Risk Index Models are a simple ‘point’s system’, which includes various ratios, which are generally accepted as measures of financial health. A certain number of points, between 0 and 100, are attributed to each firm according to the values of the ratios for that firm. The higher the points total, the better the firm’s financial situation. The risk index takes account of the fact that some ratios are more important than others, thus points are allocated in a way that the most important ratios have a higher weighting than ones deemed less important (Balcaen and Ooghe, 2006).</td>
<td>Tamari (1966) Moses and Liao (1987)</td>
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<td>Bankruptcy Prediction Model</td>
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<td><strong>Probit Model (PA)</strong></td>
<td>The Probit models is closely related to the logit model however the main</td>
<td>Zmijewski (1984), Gloubos and Grammatikos (1988), Skogsvik (1990), Theodossiou (1991), Lennox (1999)</td>
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<tr>
<td><strong>Hazard Model</strong></td>
<td>Hazard models can generate probabilities of failure within a predetermined interval</td>
<td>Cox (1972), Lane et al. (1986), Whalen (1991), Wheelock and Wilson (2000), Shumway (2001), Beaver et al. (2005), Arena (2008)</td>
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[Adapted and extended from Balcaen and Ooghe, 2006; Kumar and Ravi, 2007]
As evidenced from Table 2.3 bankruptcy prediction models have an enduring popularity in the literature, however whilst they are still relevant and useful they are less reliable in our contemporary business climate (Charitou and Lambertides, 2003; Balcaen and Ooghe, 2006) and as such other tools need to be engaged to adequately examine firm collapse (Zavgren, 1985). In response to the deficiencies of failure prediction models acknowledged by numerous academics (Argenti, 1976; Zavgren, 1985; Keasey and Watson, 1987; Ooghe et al., 1995) organisation declines studies began to emerge (Hambrick and D’Aveni, 1988; Weitzel and Jonsson, 1989), these decline studies are the focus of section 2.5.

2.5 Organisational Decline Studies

The late 1980’s saw an emergence in the business failure literature of organisational decline studies as opposed to predictive models (Adler and Chaston, 2002). Rather than attempting to discriminate between failed and non-failed firms as predictive studies tend to do the organisational studies were more concerned with understanding the causes and more recently, the processes of business failure. The organisational failure studies examined the softer issues that contributed to the fundamental origins of business failure rather than the financial symptoms they resulted in.

The concept of a business progressing through distinguishable, predictable stages was further synthesised by organisational and social scientists in the 1980’s with the development of life-cycle theory (Cahill, 1997). The lifecycle theory argued that an organisation progresses through five stages, namely ‘birth’, ‘growth’, ‘maturity’, ‘decline/revival’ and ‘death’; whilst these stages are distinctive an accepted weakness of the model is the fact that all firms do not progress sequentially through the stages nor do they spend an equal amount of time in each stage (Cahill, 1997). The business failure models focus on the final two stages of the lifecycle in an attempt to better understand the failure phenomenon. This research will help bridge the gap in the literature by charting the progression of business failure from birth to death but also beyond death to future action and
professional reincarnation. As such this research will aid practitioners to identify and remedy internal problems as they occur within firms, the importance of this was acknowledged by Argenti (1976, p. 122) when he stated, “only corrective actions that would solve the fundamental causes of the difficulties would really lead to lasting recovery”. Further support for this view is provided by Abdelsamad and Kindling (1978, p. 372) as they see potential in reducing the rate of failure “if some of its causes are recognized and preventative action is taken”. Schendel and Patton (1976) highlight a similar perspective in the turnaround literature as they argue that significant declines and sharp drops in performance are often prerequisites for successful turnaround efforts. Their key contribution lay in the dichotomy of causes and the manner in which these may influence the appropriateness of the turnaround response. In contrast Fredland and Morris (1976) argue that the search for the causes of failure is largely concerned with ascribing blame, this is seen as a futile exercise given the complexities involved in small business failure. Despite this perspective Fredland and Morris (1976) do concede that recognition of the differences between endogenous and exogenous causes (as discussed in Section 2.3) of business failure will help further clarify the phenomena.

2.5.1 Failure as a Process

The next phase of advancement within the field of business failure began with the identification of failure as a process rather than an unexpected, unfortunate outcome. This strand of research suggests that a firm evolves through various chronological phases of failure, and if these phases are identified and remedied in time then catastrophic failures can be avoided (Weitzel and Jonsson, 1989; Cannon and Edmondson, 2005). “Trajectories of corporate collapse”, a concept introduced by Argenti (1976) and the term “downward spiral”, iterated by Hambrick and D’Aveni (1988) can be considered synonyms for the process of business failure. The term ‘process’ aims to establish a chronological order to the evolution of failure and in some cases this results in the employment of typologies and categorisations to explain firm collapse at each stage in the progression of failure, thus as a concept it engages constructs such as “failure
syndromes” (Miller, 1977, p.43) and “failure pathways” (Moulton et al., 1996, p.573) without explicitly referring to them as a synonym for failure process. Failure syndromes and pathways are usually concerned with explaining business failure and grouping similar strains of failure into respective categories.

The majority of studies that have attempted to describe failure have focused on a single, static pattern (Moulton et al., 1996). One of the first researchers to examine the dynamic nature of failure was Argenti (1976) with research which consolidated both the notion of ‘failure as a process’ and ‘failure as an outcome with distinctive, identifiable patterns’ into a study that related non-financial failure causes with financial indicators, the result of which was a group of three failure trajectory models charting the decline and ultimate failure of firms segregated by variations in performance and maturity (Ooghe and De Prijcker, 2008). As Argenti (1976) felt a need for “a storyline that binds together all these causes and symptoms into a working model”, the seminal study also developed archetypical process stories that encapsulated the basic sequence of events which started each firm on its respective failure trajectory (Argenti, 1976, p. 121). However over a decade latter D’Aveni (1989) noted that Argenti’s findings were still awaiting confirmation and further explanation. Yet the foundation was set for a handful of studies that endeavoured to formulate the ultimate trajectory, pathway and/or pattern of failure (Miller, 1977; Sharma and Mahajan, 1980; Hambrick and D’Aveni, 1988; D’Aveni, 1989; Weitzel and Jonsson, 1989; Miller, 1992; Richardson et al., 1994; Moulton et al., 1996; Mellahi, 2005). However these studies did not bridge the gap in the literature as Ooghe and De Prijcker (2008, p. 226) said to date “few researchers have explicitly analysed failure as a process”. Thus the literature remains sparse in this area despite Sharma and Mahajan (1980, p.82) acknowledging in 1980 “a systematic study of failures requires a model of the underlying failure process”.

The reasons scholars have shied away from studies into business failure include: the negative connotations associated with the concept of failure, the idea that each firms failure process is atypical and hence not suitable for scientific study, a
lack of a systematic body of knowledge on the failure process, a belief that failure is a sudden unforeseeable occurrence rather than a gradual process (Sharma and Mahajan, 1980). Furthermore Mellahi (2005, p. 262) contend, that “a large body of research on organisational failure shows that, typically, failure progresses through distinct or predictable stages”. Nonetheless, Mellhi and Wilkinson (2004, p.31) posit that the ‘major defect’ in the area of examining business failure and the internal factors associated with it “may lie in the fact that virtually all such studies are limited to one society, the US”.

Despite Argenti’s (1976) seminal research into the failure trajectories of different companies and the studies focus on the relevance of management errors “the existence of specific errors in different failure paths and within distinctive phases is not clear”, thus the subtleties of the various failure trajectories is not sufficiently apparent (Ooghe and De Prijcker, 2008, p. 226). Although this remains an under-researched area some recent studies adopting this approach have been conducted by Sheppard and Chowdhury (2005) and Ooghe and De Prijcker (2008), such research provides a fuller picture of failure as they consolidate the ‘why’ and ‘how’ into their research resulting in respective models which provide increased insight and knowledge into the complexities of business failure. However until these studies many of the models examining the process of organisational collapse were derived from literature reviews and already available public data but lacked empirical data, such models are detailed in Table 2.4.
Table 2.4 Models of Organisational Collapse

<table>
<thead>
<tr>
<th>Author</th>
<th>Study</th>
<th>Model Output</th>
<th>Primary Data*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miller, 1977</td>
<td>• Instead of a more common cause and effect analysis this study is based on the holistic concept of syndromes of common behaviour patterns found in distressed firms&lt;br&gt;• Regards failure as the result of three extremes: too little/much product-market innovation, too little/much emphasis on controls and an overly powerful CEO or one who is merely a figurehead</td>
<td>4 Failure Syndromes:&lt;br&gt;• Impulsive Syndrome: Running Blind&lt;br&gt;• Stagnant Bureaucracy&lt;br&gt;• Headless Firm&lt;br&gt;• Swimming Upstream: The Aftermath</td>
<td>No. Cases used from secondary sources</td>
</tr>
<tr>
<td>Sharma and Mahajan, 1980</td>
<td>• Proposes that failure can be predicted by either the causes of failure or the performance indicators&lt;br&gt;• Recognises management mistakes as being the major causes of firm failure</td>
<td>Models Basic Premise:&lt;br&gt;Ineffective management leads to errors which cause a deterioration in performance indicators which may be worsened by unforeseen environmental events that in absence of effective corrective action results in failure</td>
<td>No. Obtained data from secondary sources</td>
</tr>
<tr>
<td>Hambrick and D’Aveni, 1988</td>
<td>• Examines the dynamics of failure of large firms which they characterise as ‘downward spirals’&lt;br&gt;• Test four hypotheses they conclude that the downward spiral can be divided into 4 distinct stages over a decade – remarkably the study suggested indicators of weaknesses a decade before the ultimate collapse</td>
<td>4 Central Hypotheses Tested:&lt;br&gt;• Corporate Strategic Behaviour&lt;br&gt;• Environmental Carrying Capacity&lt;br&gt;• Resources Slack&lt;br&gt;• Performance</td>
<td>No. Used databases to gain information</td>
</tr>
<tr>
<td>D’Aveni, 1989</td>
<td>• Study presents decline as a pattern of decrease over time in a firm’s internal resources&lt;br&gt;• Bankruptcy may be delayed/avoided in an environment of growing demand</td>
<td>3 Failure Patterns Preceding Bankruptcy:&lt;br&gt;• Sudden Decline&lt;br&gt;• Gradual Decline&lt;br&gt;• Lingering</td>
<td>No. Data gleaned from existing source</td>
</tr>
<tr>
<td>Weitzel and Jonsson, 1989</td>
<td>• Proposes a model of decline founded on the continuum of 5 processual stages of organisational problems and weakening environmental support&lt;br&gt;• Incorporates both the internal and external context within which the firm operates</td>
<td>5 Stages of Decline:&lt;br&gt;• Initial Blindness&lt;br&gt;• Inaction&lt;br&gt;• Faulty Decisions&lt;br&gt;• Faulty Actions&lt;br&gt;• Implementation</td>
<td>No. Used an examination of existing literature</td>
</tr>
<tr>
<td>Author</td>
<td>Study</td>
<td>Model Output</td>
<td>Primary Data*</td>
</tr>
<tr>
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</tbody>
</table>
| Miller, 1992           | • Charts the evolution of firms from dynamic beginnings to their stagnant maturity.  
                         • Highlights the importance of constant vigilance and reflection         | 4 Failure Trajectories:                                                       | Unclear/  
                         • Focusing  
                         • Venturing  
                         • Inventing  
                         • Decoupling                                                              | Unlikely.  
                         Used cases from large companies                                            |
| Richardson et al., 1994| • Examines person specific characteristics which identify the leader of various failure prone organisations  
                         • Heavily leadership based                                                 | 4 Organisational/Leadership types prone to failure:                          | No.  
                         • Boiled Frog  
                         • Drowned Frog  
                         • Bullfrog  
                         • Tadpole                                                                 | Used an examination of existing literature                                  |
| Moulton et al., 1996   | • Examines failure through firm and industry growth patterns           | 4 Failure Pathways:                                                          | No.  
                         • Conclude that firm effects are more important that industry effects on the health of a firm  
                         • Conclude that firm effects are more important than industry effects on the health of a firm | Data used obtained from existing databases                                  |
| Mellahi, 2005          | • Study is a post-mortem analysis of the collapse of HIH, Australia’s second largest insurer  
                         • Case analysis shows that as the CEO’s power and ability to control the board spiralled upward over the four stages of failure, the board’s power and ability to influence the CEO spiralled downwards | 4 Stages of Failure:                                                          | No.  
                         • Conception Stage  
                         • Warning Signals  
                         • Rebellion Stage  
                         • Collapse Stage                                                              | Data used obtained from existing databases                                  |
| Chowdhury, 2002;        | • Model was created more as a turnaround process model than a failure process model.  
                         • Model is derived from an analysis of the literature however the author argues that the model is malleable as it can be elaborated on and refined by the inclusion of empirical findings. | 4 Stage Model of Failure/ Turnaround:                                        | No.  
                         Sheppard and Chowdhury 2005                                                 | Used an examination of existing literature but tested model on a firm        |

* Data collected from its original source for the specific use of business failure research
The models depicted in Table 2.4 are highly usefully, well-informed frameworks that helped guide the underpinning constructs of this piece of research they lack crucial primary data in the form of conversations with the principal owner/managers of the firms. The studies, and resultant models are based on existing data in the form of financial accounts, historical economic records, bankruptcy cases, existing case studies and existing investigative reports. Whilst this data is comprehensive and informative it imposes restrictive constraints on the researchers as they can only work with the information available. However these studies serve as a strong foundation on which to ground empirical research, furthermore they provide compelling arguments for the existence of failure syndromes (Miller, 1977), patterns (D’Aveni, 1989), stages (Weitzel and Jonsson, 1989; Mellahi, 2005; Chowdhury, 2002), trajectories (Miller, 1992) and pathways (Moulton et al., 1996). These concepts endeavour to chart the evolution of organisations demise yet as Ooghe and De Prijcker (2008, p.226) acknowledge few have “explicitly analysed failure as a process”. Thus the boundaries of failure studies needs to be pushed further and they must become explicit in their intentions, this coupled with empirical research is required to develop both the failure literature and studies usefulness to practitioners (Ooghe and De Prijcker, 2008).

2.5.2 Modelling the Process of Failure

Academic offerings that include primary data collection are sparse but Ooghe and De Prijcker (2008) did do this with a Belgium based study that involved the selection of 12 companies based on size, age and industry. Annual accounts and court findings were utilised and a selection of interviews with multiple stakeholders were conducted (Ooghe and De Prijcker, 2008). A typology of four types of failure processes were emergent from the analysis of the case-study findings, namely: ‘failure process of an unsuccessful start-up’, ‘failure process of an ambitious growth company’, ‘failure process of a dazzled growth company’ and ‘failure process of an apathetic established company’. The failure process typologies are strongly related to company maturity and management
characteristics. It is viewed that these attributes affect a company’s ability to attract finance and also management’s ability to deal with environmental changes.

Chowdhury’s (2002) model mentioned in Table 2.4 was one of the multiple frameworks derived from a literature analysis (Weitzel and Jonsson, 1989; Richardson et al., 1994) however the author’s proceeding paper, Sheppard and Chowdhury (2005), did attempt to embed the model in a degree of empiricism by testing it as a failure process model. ‘T. Eaton Company Ltd.’, a once successful but ultimately failed Canadian retail giant merchandising firm was the subject of this study, its surviving counterparts Hudson’s Bay Company and Canadian Tire were also examined as a means of depicting the model as a failure process model and illustrating how industry counterparts overcame similar market pressures successfully. The four-stage model highlights the sequential steps through which an organisation progresses through before reaching organisational death, they posit that it is much easier to halt failure during the first two stages (decline and response initiation) through tactical measures than to reverse it during the last two stages (transition and outcome), when it is deeper entrenched (Sheppard and Chowdhury, 2005). The authors view a firm’s management, its environment and the way both the firm and environment interact, as playing a key role in a company’s survival, and thus argue that unless the downfall of a firm can be attributed to “some sudden, unexpected and extreme external shock” that it could not have foreseen, then it could have been avoided (Sheppard and Chowdhury, 2005, p.241).

Some prominent researchers (Argenti, 1976, D’Aveni, 1989, Laitinen, 1991) argue that not all firms enter a failure process for the same reasons and they do not all approach the downward spiral the same way as characteristics such as age, size, industry and flexibility influence a firm’s reactions (Ooghe and De Prijcker, 2008). It is also suggested that the failure process begins within a firm way before it becomes apparent in the financial accounts, in fact deterioration in the financial accounts is merely a translation of existing fundamental
organisational problems that were left unaddressed (Weitzel and Jonsson, 1989; Fitzgerald, 2006). As Ooghe and De Prijcker (2008, p.223) put it, “company failure does not happen overnight”. This perspective of failure progressing through separate and predictable stages is taken a step further by Mellahi (2005) with his concept of warning signals initiating the pre-failure stage, the signals indicate a forthcoming threat to the company’s existence and if they are not spotted and appropriately acted upon by management the firm will begin its journey through the failure process culminating in the company’s collapse. Similarly, Weitzel and Jonsson’s (1991) five-stage model of failure corroborates the view that management inaction can decimate a firm during the initial stages of failure.

2.5.3 The Progressive Nature of Failure

The comparison of a heart-attack to describe the progressive collapse of an organisation, in which the process of failure is like a crippling disease which is taking a strangle-hold on a firm is employed by Fitzgerald (2006), whereby the faster it is diagnosed the greater the chances of recovery. The initial stages of failure are covert and unapparent to outsiders looking in, unfortunately they can also go unnoticed by people within the firm, thus allowing them to fester and worsen. They can present themselves as distrust and unaccountability amongst staff members. As the disease spreads through the organisation it becomes apparent from both an internal and external perspective that all is not well, production numbers, market share and staff satisfaction levels fall, whilst problems get harder to mend. Finally, inappropriate antidotes by management solidify the deadly grasp of the illness and it sweeps through the organisation with fatal consequences. This stage is characterised by negative cash flows and banks pulling loans.

Having identified that failure is unlikely to be a sudden occurrence and is often a direct result of a destructive chain of unchecked events, it is crucial that we unearth ways and means to halt and even reverse the process of corporate
annihilation. Such a solution is also quite time dependent – basically the sooner management realise what is going wrong and take steps to fix the problem, the better the firm’s chances of survival. Identifying the onset of failure is particularly important when changes in performance are gradual as ‘a serious response is never triggered, or at least not until it is too late to respond’, so a reactive approach by management is not a good strategy to adopt when trying to combat failure (Chowdhury and Lang, 1993, p.9). Dillon and Tinsley (2008) posit that the actions management take to remedy a situation will greatly depend on the firm’s antecedent events or outcomes.

Furthermore Chowdhury and Lang (1993) argue that there is a time dimension to failure and when changes in performance are gradual the required response from management to reverse the decline is seldom triggered; at least not until the firm’s performance has dissipated to such a degree that even the most effective action is unlikely to rescue the firm. Failure is seen as a process that is likely to progress through numerous stages, each stage characterised by different symptoms however this is not adequately reflected by prediction models which assumes that all firms follow a uniform failure process (Ooghe and De Prijcker, 2008; Balcaen and Ooghe, 2006). It is for these reasons that there has been a shift in focus towards qualitative methods as a means of truly understanding business failure in recent years.

For some businesses the progression of the process towards failure is inevitable and irreversible; it occurs in spite of, or indeed because of, an individual trying to reverse the downward spiral towards closure (Cardon et al., 2005). In such instances charting the repercussions of the failure experience is insightful as different failure experiences can result in very different outcomes (Thorne, 2000; Wiesenfeld et al., 2008). The consequences of failure on the individual are explored in greater depth in section 2.6.
2.6 Consequences of Failure on the Individual

Business failure does not happen in a vacuum; the inter-related tapestry of commerce means that the effects of business failure can spillover from one’s professional life and affect one’s personal life. However, the experience of failure is not entirely negative as “failure is the perspective through which success is understood” (Thorne, 2000, p. 306). The experience of failure can be a highly personalised learning experience from which much learning can be gained. The consequences of failure on the individual are explored in the following section.

2.6.1 Professional and Personal Affects of Business Failure

The personal consequences of failure are high (Malone, 2004; Drummond and Chell, 1994). However, to date there has been little research into the ways in which corporate failures affect the life’s of individuals from a professional and economic perspective (Wiesenfeld et al, 2008). Recent research has suggested that cultural attitudes and perceptions of business failure vary between regions (Cardon et al., 2011; Damaraju, Barney and Dess 2010). Furthermore, cultural sense-making of business failure can also influence how entrepreneurs perceive their closure experience and the manner in which they behave when their firm is faced with difficulty, whether they decide to persist with the venture when it is loss making or cut losses and shut the business promptly (Cardon and McGrath, 1999; Shepherd et al. 2009b). From a broader perspective the perceptions that exist towards failure in a culture may have profound effects on the allocation of resources also if failure is deemed intolerable the associated stigma of business collapse can spill over into personal and social stigmas resulting in entrepreneurs being less inclined to pursue entrepreneurial ventures or more considered in doing so (Cardon et al. 2011).

Societal views on failure are likely to vary between cultural and geographical settings (Damaraju, Barney and Dess 2010). According to Cardon et al (2011, p.80) “views on failure in the U.S. range greatly, from the general tolerance of
failure in Silicon Valley to the abhorrence of it on more conservative Wall Street”. The lower a cultures’ tolerance to failure the greater the resulting overspill of stigmatization beyond ones professional life and into ones social and personal life. Stigma is “a quality of social dishonor: a mark of degradation, loss of esteem, or loss of reputation” (Spicker, 1984, p.159). Thus for unsuccessful entrepreneurs stigmatization is the resultant stain on ones image and character due to their direct association with firm collapse (Wiesenfeld et al., 2008; Achtenagen, 2002). In some cases the intensity of stigmatization can result in the failure label expanding from the corporate setting into social settings and encompass everyone associated with the entity (Ingebretsen, 2003), this is known as a courtesy stigma or stigma by association (Wiesenfeld et al., 2008). A courtesy stigma is not induced by an individuals dubious behaviors or characteristics but rather “people who are identified with that category in observers’ minds absorb the stigma of the category to which they are perceived to belong” (Wiesenfeld et al., 2008, p. 236).

Society also recognizes that the influence of leaders on organizational outcomes is immense (Rowe, 2001; Yukl, 1994; Hambrick and Mason, 1984), thus making organizational leadership a prominent target when forming assignations regarding organizational outcomes whether said assignations are valid or not (Wiesenfeld et al., 2008). Leaders of organizations’ are regarded as the formal decision making authority within a firm, they are also the ones with the highest concentration of power and have access to large quantities of information, this allows them to make informed choices and guide the organization appropriately (Finkelstein, 1992; Argenti, 1976). As such stigmatization is most profound for the organizational members who are deemed to be in charge (Wiesenfeld et al., 2008) it is also envisaged that the higher ones position of power within an organization, the greatest downward settling-up one experiences (Cannella et al., 1995). Stigmatization is not only emotionally difficult but it also invokes substantive loss as when an individual’s identity is tarnished the resources and compensation they can command are subsequently diminished (Wiesenfeld et al., 2008, p.242).
A propeller of the stigmatization of individuals, following corporate collapse, is the concept of ‘schadenfreude’, this results from “observers’ desires to feel better about themselves by comparing themselves to less fortunate others” (Wiesenfeld et al., 2008, p. 239). Individuals can take great pleasure in seeing the downfall of their peers however social capital is one factor that can help mitigate the effects of failure stigmatization, people with “high levels of social capital, prestige, and status may be buffered from personal stigma because their social capital alters the ways that observers react to them” (Wiesenfeld et al., 2008, p. 240). Recent research also states that entrepreneurs prefer informal support networks above formal support networks (De Faoite et al., 2004). Bolstered by a strong supportive network entrepreneurs bounce back faster from firm collapse as society is reluctant to label favored individuals with negative characteristics such as ineptness and self-servitude (Wiesenfeld et al., 2008). Thus, entrepreneurs with a strong and diverse network are buffered from the ill effects of firm failure as their social capital is likely to present them with a favourable forum through which they can defend themselves and reinstate, to some degree, their social standing, this in turn allows the entrepreneurs to mitigate the effects of stigmatization and avoid experiencing ‘schadenfreude’ (Wiesenfeld et al., 2008).

Research examining Irish and Dutch entrepreneurs yielded results that stated that networking was the most widely employed support mechanism utilized by entrepreneurs, with 70 percent of interviewees making use of their networks above access to funding (over 50 percent) and mentoring facilities (49 percent) (De Faoite et al., 2004). Additionally start-ups problems are compounded if they lack the appropriate access to a business network (Fielden et al., 2000), extensive social capital can also be used as a means of combating risky situations and create stability (Gilmore et al., 2004).

The literature puts forth a number of key factors that are likely to be influenced by cultural views of failure (Cardon et al., 2011). Besides the stigmatization of individuals ones ability to access capital and other resources are impacted by a society’s view of failure (Aldrich and Fiol, 1994). If a society deems failure as
wholly negative, observer’s might place all penalties for the failure on the entrepreneur and/or the firm (McGrath, 1999), this in turn disincentivize’s further engagement in entrepreneurial efforts and can ultimately result in a loss of organizational and social memory (March and Shapira, 1987 as cited in Cardon et al., 2011). Such an activity may then lead to diminishing entrepreneurial returns due to fewer enterprises being created. Thus, there are a reduced number of opportunities to learn from entrepreneurial pursuits and create employment and prosperity (Cardon et al., 2011).

If after an entrepreneurial failure an individual becomes stigmatized and fails to shake off the deep-seeded association with the collapsed venture they ultimately become ostracized or shunned. Shunning involves “visibly withdrawing from the stigmatized and rejecting their possible overtures for interaction, and it is the process that leads from stigmatization to professional and economic devaluation, or settling-up” (Wiesenfeld et al. 2008, p.242). Whilst stigmatization places the individual in a spotlight of shame highlighting all their faults in an effort to engender further disdain, shunning, conversely, amounts to pushing the individual into the dark recesses of the corporate world, in some cases treating them as though they were nonexistent. This in turn leads to an inability to exchange or retain relationships and so results in devaluation (Wiesenfeld et al., 2008, p.242). Once again comprehensive social capital helps arbitrate the effects of shunning as an individual with abundant social capital may have access to information, influence and solidarity resources to shield them for shunning by their peers (Adler and Kwon, 2002), and thus reduce the devaluing effects of stigmatization and subsequent shunning. Furthermore the creation of a culture in which failure is normalized removes the emotional aversion to failure, this allows entrepreneurs to recover quicker from failure as negative emotions are neutralized (Shepherd et al., 2009a). A culture where failure is accepted or at the least not stigmatized, removes a significant barrier to learning.
2.6.2 Experience and Learning

Contrary to what one may expect it has been noted that entrepreneurs who had experienced corporate failure were not less confident or likely to steer clear from entrepreneurial opportunities in the future; conversely such individuals display similar or greater amounts of positivity and entrepreneurial eagernessness than their successful counterparts (Cardon et al., 2011). The failed entrepreneurs saw their failure as a right of passage or an “entrance fee for entrepreneurship” (Ucbasaran et al., 2006, p. 24). So whilst firm failure is largely viewed by society as a negative consequence of business some scholars argue its merits as an important learning tool (McGrath and Cardon, 1997; Stokes and Blackburn, 2002; Schoemaker and Gunther, 2006) that acts as a catalyst for further economic and business development (McGrath, 1999). Additionally learning from one’s personal experience of failure allows for a tailored form of learning, the learning is individual, a form of learning that cannot be taught merely attained through practice (Kriegesmann et al., 2005). It has also been argued that how one deals with setbacks can have a vital influence on subsequent performance as it establishes how one copes in threatening, stressful situations (Locke and Taylor, 1991). Empirical evidence would suggest that the decision-making processes are guided by ones past experiences (Hambrick and Mason, 1984; Fielden et al., 2000; Dillon and Tinsley, 2008).

The strategies and decisions employed by a firm are likely to be a reflection of the values and believes’ of powerful actors within the firm (Hambrick and Mason, 1982). Individuals who have spent their entire career in one organization may have a myopic view of situations and limited perspectives (Hambrick and Mason, 1982), a variation of experiences however is positive as this allows individuals to see complex problems and their solutions from various angles so the most appropriate course of action can be taken (Barker, 2005). A prior brush with business failure has the ability to furnish entrepreneurs with the array of experiences necessary to learn from the failed venture and provides the determination, motivation and preparedness to make a venture work the next time (Stokes and Blackburn, 2002; Cope, 2011). However in the face of failure
individuals with high self-esteem tend to respond to failures by shifting attention away from their negative attributes and on to more positive aspects in an effort to preserve their favorable opinion of themselves, this in turn can lead to a failure becoming compartmentalized and thus more difficult to learn from (Baumeister, 1996). As Henry Ford once said, “there is often more to be learned from failure than there is from success if we but take the time to do so” (as cited in Longnecker et al., 1999, p. 503).

Blackburn (2002) stated the majority of business owners leave business through a revolving door rather than a one-way exit. This is an important point to note as it means that entrepreneurs have an opportunity to learn from their previous mistakes and become more capable at executing a successful business venture. In a sense their experiences provides them with a set of dynamic capabilities that may increase their ability to succeed in future ventures, however Eisenhardt and Martin (2000) posit that in high-velocity markets with a blurred industry structure dynamic capabilities take on a different character. In these instances they are simple, experiential and unstable processes and result in unpredictable outcomes. As such the ability of the entrepreneur to confidently accumulate the best set of capabilities is difficult to do and uncertainty remains the only reliable certainty.

2.7 Theoretical Framework

The key issues touched on in this chapter are presented in Table 2.5 as a means of highlighting the existing literature and illustrating its relation to the key topics under investigation. The table shows the way the interview protocol is informed by contemporary literature and constructed with an awareness of the issues affecting entrepreneurs today. The first part of the table looks at literature that examined the external causes of business failure. The main construct that was gleamed from this literature pertained to environmental shocks. As such unexpected changes or unforeseen events will be queried in the interviews. The second part of the table dealt with internal causes of business failure. In this
literature it was found that management are mainly regarded as the underlying internal cause of firm failure. Therefore, management, their actions and behaviours were the primary component of this study. The next table presented the literary dimensions surrounding management approaches. This examined the processual element of business failure as it focused on actions, results and outcomes. It provided the researcher with specific elements to work with when examining the process of business failure and allowed for the formulation of an informed interview protocol. The final table charts the evolution of business failure with regards to existing literature. This looks at the management activities and the consequences of those actions in addition to the trajectory of business failure. It is expected that such a comprehensive interview protocol, so embedded within the literature will contribute greatly to the business failure field.
Table 2.5 Theoretical Basis for Justification of Study and Interview Protocol

<table>
<thead>
<tr>
<th>Construct Dimension</th>
<th>Literature</th>
<th>Item Stems</th>
<th>Item Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Shock</td>
<td><strong>Hemraj, 2004</strong></td>
<td>Recession</td>
<td>The economy is punctuated with peaks and troughs, &quot;it can be difficult...to identify these trends with certainty and to act accordingly&quot; (p.179)</td>
</tr>
<tr>
<td></td>
<td><strong>Fitzsimons and O'Gorman, 2005</strong></td>
<td>Financial Crisis</td>
<td>&quot;On average entrepreneurs need to find 50% of the capital they require from external sources&quot; (p.23)</td>
</tr>
<tr>
<td></td>
<td><strong>Bruno, Leidecker and Harder, 1987</strong></td>
<td>Customer</td>
<td>An over-reliance on a few customers vastly increases a firm's probability of failure</td>
</tr>
<tr>
<td></td>
<td><strong>Porter, 2008</strong></td>
<td>Bargaining Power of Suppliers</td>
<td>When the bargaining power of suppliers is high, small firms are more susceptible to failure</td>
</tr>
<tr>
<td>Construct Dimension</td>
<td>Literature</td>
<td>Item Stems</td>
<td>Item Statements</td>
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</tr>
<tr>
<td><strong>Finance</strong></td>
<td>Longenecker, Simonetti and Sharkey, 1999</td>
<td>Finance</td>
<td>Problems regarding the health of a company usually present themselves in the financial performance of the firm first</td>
</tr>
<tr>
<td></td>
<td>Horn, 2005</td>
<td>Marketing</td>
<td>Executives need to look outwards towards the marketplace as being too inwardly focused is bad</td>
</tr>
<tr>
<td></td>
<td>Carroll and Mui, 2008</td>
<td>Production</td>
<td>Focusing on the wrong technology during the production process can result in loss of market share</td>
</tr>
<tr>
<td></td>
<td>Porter, 1980</td>
<td>Product</td>
<td>The stage in the life cycle which the product is in, is paramount to the success or failure of a company</td>
</tr>
<tr>
<td><strong>Human Resources</strong></td>
<td>Field, Davidson and Makin, 1999</td>
<td>Human Resources</td>
<td>&quot;41% of micro business owners said they would not expand to become a small business, simply because of the difficulties involved in employee recruitment&quot; (p.302)</td>
</tr>
<tr>
<td></td>
<td>Gilmore, Carson and O'Donnell, 2004</td>
<td>Experience</td>
<td>Entrepreneurs draw on past experience when making decisions, this reduces risk of failure…thus experiential knowledge is important to achieve success</td>
</tr>
<tr>
<td></td>
<td>Davis and Olsen, 2008</td>
<td>Planning</td>
<td>&quot;destroys the start-up's precise competitive advantage; that is, the ability to be fast to market&quot; (p.213)</td>
</tr>
<tr>
<td><strong>Planning</strong></td>
<td>Tichy, 1992 as quoted in Sheth and Sisodia, 2005, p.28/29.</td>
<td>Complacency</td>
<td>success can make companies complacent and even arrogant, firms can get &quot;locked in to certain orthodoxies and therefore do not take charge of their own destinies fast enough&quot; (p.28-29)</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>Gilmore, Carson and O'Donnell, 2004</td>
<td>Delegation</td>
<td>&quot;a reluctance to delegate responsibilities are considered to be key characteristics of the small business entrepreneur/owner-manager&quot; (p.354)</td>
</tr>
<tr>
<td>Construct Dimension</td>
<td>Literature</td>
<td>Item Stems</td>
<td>Item Statements</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------</td>
<td>------------</td>
<td>-----------------</td>
</tr>
<tr>
<td><strong>Actions</strong></td>
<td><em>Fich and Slezak, 2008; Cannon and Edmondson, 2005; Sheppard and Chowdhury, 2005;</em></td>
<td>Turnaround</td>
<td>As the failure process progresses it is more difficult to turn a business around</td>
</tr>
<tr>
<td></td>
<td></td>
<td>External Actor</td>
<td>External consultants are necessary to save a failing business</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Approaches</td>
<td>Past experiences influence current decision making</td>
</tr>
<tr>
<td><strong>Results</strong></td>
<td><em>Finkelstein, 2005; Richardson et al, 1994;</em></td>
<td>Management</td>
<td>Entrepreneur takes on too much and drowns in a whirlpool of his own creation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Time</td>
<td>Curbing failure can be like trying to cut out cancer when it has already spread to the rest of the organisation.</td>
</tr>
<tr>
<td><strong>Outcomes</strong></td>
<td><em>Stokes and Blackburn, 2002; Malone, 2004; Beaver and Jennings, 2005; Haswell and Holmes, 1989;</em></td>
<td>Failure</td>
<td>There is a stigma attached to business failure in Ireland</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Causes</td>
<td>Management is the single biggest cause of firm collapse</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Future</td>
<td>&quot;In America there's a truism that your no good in business until you've had at least one go under&quot;. (Richard Sherriff, Belfast News Letter)</td>
</tr>
<tr>
<td>Construct Dimension</td>
<td>Literature</td>
<td>Item Stems</td>
<td>Item Statement</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------</td>
<td>------------</td>
<td>---------------</td>
</tr>
<tr>
<td><strong>Warning Signs</strong></td>
<td>(Fitzgerald, 2006; Mellahi, 2005; Sheppard and Chowdhury, 2005; Cannon and Edmondson, 2005)</td>
<td>Organisational</td>
<td>Failure to align the firm with its environment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Initial problems are invisible from outside the company and often not understood by those inside</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Management</td>
<td>Lack of delegation, skills and management experience in top management</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Management has a tainted field of vision due to past experiences</td>
</tr>
<tr>
<td><strong>Management Response</strong></td>
<td>(Choo, 2008; Dillon and Tinsley, 2008; Baumard and Starbuck, 2005; Chowdhury and Lang, 1993; Johnson, 1991)</td>
<td>Financial</td>
<td>Ability to marshal financial support</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Management</td>
<td>Poor decision making is the cornerstone of managerial mistakes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rigidity</td>
<td>Past successes have built up dangerous rigidities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Communication</td>
<td>Strong communication with staff is necessary to reverse failure trajectory</td>
</tr>
<tr>
<td><strong>Threat of Business Failure</strong></td>
<td>(Fitzgerald, 2006; Barker 2005; Sheth and Sisodia, 2005; Hambrick and D’Aveni, 1992)</td>
<td>Culture</td>
<td>Culture of distrust and unaccountability begins to envelope firm</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Management</td>
<td>Indecisiveness and inappropriate responses to key events</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Employees</td>
<td>Staff satisfaction is reduced and employee turnover increases</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Production</td>
<td>Production numbers, time-to-market, customer turnover, etc. highlight the difficulty of the firm</td>
</tr>
<tr>
<td><strong>Failure</strong></td>
<td>(Stokes and Blackburn, 2002; Everett and Watson, 1998; Cunningham, 1997; Fredland and Morris, 1976)</td>
<td>Learning</td>
<td>There is a considerable amount of knowledge to be gained from failing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Feeling</td>
<td>People who have failed are more likely to blame exogenous factors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Future</td>
<td>Most entrepreneurs leave through a “revolving door” rather than a “one-way exit”</td>
</tr>
</tbody>
</table>
2.8 Contribution of Research

The first proposed contribution is to provide further empirical research into the phenomenon of business failure; to date empirical studies of failure are scarce in comparison to the increased conversation business failure has been receiving in both the popular and academic literature (Cardon et al., 2011). The study’s overarching research question: ‘How does the process of decline evolve within a firm and what is the causal affect on management actions?’ provides the focus for the study. Many process studies to date have been conceptual constructs (Miller, 1977; Sharma and Mahajan, 1980; Hambrick and D’Aveni, 1988; D’Aveni, 1989; Weitzel and Jonsson, 1989; Miller, 1992; Richardson et al., 1994; Moulton et al., 1996; Mellahi, 2005). These studies lacked empirical data, as many process models to date are based on existing data in the form of financial accounts, bankruptcy cases and literature reviews. This research addresses the deficiency of empirically grounded studies in the literature. The fact that this research engages entrepreneurs that directly experienced failure rather merely employing a dataset of secondary information and attempting to apply structure to it like previous studies (Weitzel and Jonsson, 1989; Richardson et al., 1994; Moulton et al., 1996; Mellahi, 2005), highlights the originality of this research and is a major contribution of this study. Ooghe and De Prijcker (2008) and Cardon et al. (2011), highlighted the lack of empirical studies on the process of business failure, it is envisioned this research will contribute to satiating this demand for an empirical approach to the process of firm failure.

The second contribution derived from this study is a greater insight into the personal and professional affects of experiencing failure. The research questions, ‘How does experiencing business failure affect ones personal and professional life?’ and ‘What actions do management take during the advancement of business decline?’ will give insight into the nature of failure and the concept of learning from failure. Cope (2011) recognises that although ‘learning from failure’ is regularly cited as an output from ones experience with failure such
propositions rarely draw from academically rigorous observations. Additionally the affects of stigmatization as a result of experiencing failure in an Irish setting is also explored which shall in turn address a call for future research by Wiesenfeld et al. (2008, p. 247) into “the influence of national culture on stigmatization and devaluation”. This contribution adds to the contemporary literature on business failure as it is in line with the ‘emotional, softer side of failure’, direction the discourse is heading in (Wiesenfeld et al., 2008; Cope 2011; Cardon et al., 2011).

A third contribution of this research is in the form of increased understanding of the internal and external causes of business failure. The deterministic and voluntaristic perspectives have long debated on whether it is internal or external factors that have the greater amount of influence over the health of corporations. These extremely divergent perspectives have caused the literature on business failure to splinter into two opposing streams with very little synergy and it is vital that one is aware of this divergence if the gap between both schools of thought is ever to be bridged (Mellahi and Wilkinson, 2004). Academics tend to favour one school of thought over the other depending on their discipline, the result of which is a chasm between the two schools of thought as they have evolved independently (Mellahi and Wilkinson, 2004). This research has taken both deterministic and voluntaristic perspectives onboard and devised a study with a keen awareness of the subtleties of each position and as such contributes to reducing the theoretical gaps in the literature as highlighted by Mellahi and Wilkinson (2004). The importance of research which contributes to the convergence of the IO/OE and OS/OP approach to business failure is not to be underestimated as Mellahi and Wilkinson (2004) argued that continuing fragmentation of the literature could lead to a failure of the discourse itself whereby it would become a ‘weed patch’ rather than a ‘well-tended garden’. Thus the value of this contribution is not to be underestimated. ‘What internal and/or external factors impacted upon the process of decline?’ and ‘To what extent was the closure a strategic business decision or was it beyond management’s control?’ are the research questions pertaining to this contribution.
2.9 Conclusions

The main issue that still remains underexplored in the management literature is the very same issue which Argenti (1976) pointed out as being the problem with bankruptcy prediction models and that is understanding the uniqueness of the failure trajectories which each firm follows on the road to ultimate collapse. Additionally bankruptcy prediction models are flawed to a greater degree in today’s economic climate due to an increase in the relative importance of intangible assets and financial derivatives in the past two decades and a perceived increase in the degree of discretion used when entering financial statements (Beaver et al., 2005). In fact it has been stated that the highly personalised nature of the management processes of smaller enterprises means that qualitative criteria are just as appropriate as quantitative data as a means of understanding failure (Beaver and Jennings, 2005).

With respect to failure as a process it has been identified in this chapter that this remains an under-researched area of the failure literature and in particular there is a lack of empirical studies to corroborate the theoretical constructs presented in the vast amount of scholarly articles on the topic (Ooghe and De Prijcker, 2008). It has been acknowledged that in order to systematically study failures a model of the underlying process of failure needs to be derived (Sharma and Mahajan, 1980). Also the fact that much of the research to date has been United States based may be the cause of the difficulty in establishing a link between internal factors and failure (Mellahi and Wilkinson, 2004).

Additionally the lack of a universally accepted definition of business failure makes it highly difficult to accurately identify and classify failure unless direct contact is made with the firm director. As this study engaged directly with failed entrepreneurs, the researcher was able to explore the nuances and subtleties of business failure, it is expected this will facilitate a better understanding into the business closure definition classifications. In sum the key gaps in the literature will be addressed namely – the lack of empirically based research into business
failure, the need for a more robust discourse on the personal and professional effects of failure and finally the importance of reducing the divergence between the IO/OE and the OS/OP perspectives of business failure. In addressing these gaps the study envisages to answer the overarching research question, ‘How does the process of decline evolve within a firm and what is the causal effect on management’s actions?’
CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

The theoretical gaps set out at the end of the literature review in chapter 2 identified a dearth in existing knowledge of the business failure process and its managerial repercussions. The following chapter discusses the methodological issues relevant to the overall research study. The chapter commences with an introduction to the differences between the positivist and phenomenological approaches to research and then discusses the basis for this study's foundations in the phenomenological perspective. Following this, the qualitative approach as a research method is outlined and justification for its application to this study is also discussed. The constraints employed for the identification of a suitable dataset are then explored and the rationale for utilizing such a dataset is presented. Subsequently, the data collection and analysis techniques are explained with particular emphasis on the development of the lines of inquiry pursued in the semi-structured interviews. Finally, the chapter concludes with a brief evaluation of the overall research design, which examines the biases, and limitations of the study whilst also assessing the validity, reliability, and generalisability of the study.

3.2 Theoretical Foundations: Positivist versus Phenomenological Paradigms

The best method to conduct research is the subject of a longstanding epistemological debate between philosophers of science and methodologists (Karami et al., 2006). This debate has focused primarily on two fundamentally different and competing paradigms, namely, the positivist and the phenomenological approaches (Smith, 1998; Shaw, 1999). The validity of each research paradigm is dependent on the nature of the study, with the key features of each illustrated in the Table 3.1.
Table 3.1 Key Feature of Positivist and Phenomenological Paradigms

<table>
<thead>
<tr>
<th></th>
<th>Positivism</th>
<th>Phenomenology</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic Premise:</strong></td>
<td>the world is external and objective</td>
<td>the world is socially constructed and subjective</td>
</tr>
<tr>
<td></td>
<td>observer is independent</td>
<td>observer is part of what observed</td>
</tr>
<tr>
<td></td>
<td>science is value-free</td>
<td>science is driven by human interests</td>
</tr>
<tr>
<td><strong>Researcher should:</strong></td>
<td>focus on facts</td>
<td>focus on meaning</td>
</tr>
<tr>
<td></td>
<td>look for causality and fundamental laws</td>
<td>try to understand what is happening</td>
</tr>
<tr>
<td></td>
<td>reduce phenomena to simplest elements</td>
<td>look at the totality of each situation</td>
</tr>
<tr>
<td></td>
<td>formulate hypothesis and then test them</td>
<td>develop ideas through induction from data</td>
</tr>
<tr>
<td><strong>Preferred methods include:</strong></td>
<td>operationalising concepts so that they can be measured</td>
<td>using multiple methods to establish different views of phenomena</td>
</tr>
<tr>
<td></td>
<td>taking large samples</td>
<td>small samples investigated in depth or over time</td>
</tr>
</tbody>
</table>

(Source: Easterby-Smith et al., 1991, p.27)

Logical positivism engages quantitative and experimental methods to test hypothetical deductive generalizations (Burrell and Morgan, 1979; Remenyi et al, 1998; Karami et al., 2006). Conversely, the phenomenological approach applies qualitative and naturalistic approaches to inductively and holistically understand human experience in an attempt to understand and explain phenomenon, rather than search for external causes or fundamental laws (Amartunga et al., 2002; Karami et al., 2006). Extreme phenomenological and
positivist positions may be viewed as opposing ends of a theoretical spectrum. However, despite this difference in methodology, or perhaps because of it, both quantitative and qualitative methods can be employed in research (Yin, 1984; Eisenhardt, 1989; Silverman, 2001) whereby the paradigms converge as it is deemed the most appropriate way to fulfill the research objective. Furthermore, Gummesson (2006) states that the majority of quantitative analysis is built upon qualitative and subjective assumptions - and eventually interpretation. For some researchers (Bryman, 2002; Frankfort-Nachmias and Nachmias, 1996; Remenyi et al., 1998) qualitative and quantitative research are simply different ways of conducting research, each of which may be appropriate for different kinds of research agendas.

The positivist paradigm assumes an objective stance in relation to the creation of knowledge, wherein the researcher remains distant from the object of the study (Firestone, 1987). Positivists believe the world exists externally and as such everything can be measured objectively and independently of the researcher’s own perceptions and presumptions (Easterby-Smith et al., 1991). This epistemological perspective relies on deductive reasoning, where the research is guided by a hypothesis, which can be tested using data collected. Thus allowing the theory to be validated or rejected through the conduct of research. The positivist paradigm tends to engage quantitative research methods.

The phenomenological paradigm is based on the premise that the researcher lives in the human and social world that they are researching and as such they cannot be an isolated, subjective observer (Husserl, 1946). The researchers aim is “to describe as accurately as possible the phenomenon, refraining from any pre-given framework, but remaining true to the facts” (Groenewald, 2004). The central aim of this research paradigm is to facilitate an understanding of social and psychological phenomenon from the perspectives of people involved in them (Welman and Kruger, 1999). Qualitative designs involve an attempt to discover the what, why and how of occurrences (Yin, 1994) and phenomenological designs in particular permit understanding of themes related to personal
responses and experiences rather than face-value answers (Creswell, 1998). This study probed interviewees about their actions, emotions and opinions in an effort to obtain a rounded picture of the business failure situation.

3.3 Research Questions and Objectives

The role of the researcher can be managed efficiently when the research questions are well developed and the data appropriate to address those questions has been identified. The research questions relevant to this study emerged through an examination of the literature on the core area of interest, namely, business failure, from which a number of significant and complementary gaps emerged. Taken together these gaps informed the overarching research objective of this study’s agenda, namely:

**Overarching Research Objective**

*How does the process of decline evolve within a firm and what is the causal effect on management actions?*

In order to fully answer the overarching research objective it was further reduced to four different yet complimentary research question and these are as follows:

**Research Questions**

Research Question 1  **What internal and/or external factors impacted upon the process of decline?**

Research Question 2  **To what extent was the closure a strategic business decision or was it beyond management’s control?**

Research Question 3  **What actions do management take during the advancement of business decline?**

Research Question 4  **How does experiencing business failure affect one’s personal and professional life?**
The first of these is concerned with the internal and external factors that impacted upon the process of decline. This research objective will add to the debate in the literature between the deterministic and voluntaristic perspectives. More importantly it will shed light on whether the failure process was triggered from within the company or whether it was due to an external occurrence. The second research objective pertains to strategy and whether the business failure was a strategic business decision or beyond management’s control. Fulfilling this research objective will shed light on the different types of business failure, from those that failed in the purest of senses to those who exited the market in a strategic fashion. Developing an understanding of the actions taken by the entrepreneur during the process of business failure is the third research objective. This will establish the entrepreneur’s role during the process of business failure and will add to the management and organisational failure discourse. Furthermore it will draw out the nuances of the failure process and contribute to the overarching research question. The final research objective centres on the manner in which experiencing business failure affects ones personal and professional life. This will provide a perspective of the medium/long-term effects of the business failure process whilst also contributing to the present literature on business failure that delves into the emotional and psychological affects of corporate collapse, as alluded to in the literature review.

3.4 Phenomenological Foundation of this Study

Research design is the overall configuration of a piece of research, including what kind of evidence to gather from where and how such evidence is analysed and interpreted to provide answers to the basic research question (Easterby-Smith et al. 1991). Lee and Lings (2008) argue that rather than the researcher choosing a research approach, the research approach chooses the researcher, wherein a suitable approach will emerge depending on ones views and research objectives. Phenomenology is the study of lived experiences and the way those experiences are understood to develop a worldview, it rests on the assumption that there is “a structure and essence to shared experiences that can be narrated” (Marshall and Rossman, 1999, p.112). The phenomenological paradigm tends to
focus in-depth on the experiences of a few individuals to explore in detail deeply held understandings of some facet of their lives (Marshall and Rossman, 1999). Furthermore Marshall and Rossman posit that this suggests “a series of long in-depth interviews that explore the past and the present and that integrate aspects of the individual’s experience into a coherent account” (1999, p. 63). For the purpose of this dissertation, phenomenology was deemed as the most appropriate research lens to sufficiently fulfill the study’s research objectives. Phenomenology asserts that the main criterion that separates humans from the natural world is our ability to interact. Understanding business failure from an internal perspective requires one to fully understand the experiences and views of the entrepreneur at the helm of the failed organization. Phenomenology is the research paradigm that allows one to gain insight into such experiences whilst also allowing a structure to be placed on the findings. Such an approach will ultimately lead to a rich discourse and comprehensive analysis, which shall in turn fulfill the research objectives of the study.

3.4.1 Research Approach and Study Design

According to Marshall and Rossman (1999) a study that focuses on individual lived experiences is best aligned to a qualitative research approach, this is depicted in Table 3.2. In particular, in-depth interviews are a compelling research tool as they capture the deep meaning of experience in the participant’s own words. Furthermore, semi-structured interviewing is regarded as one of the most insightful methods of data collection. Hermanowicz (2002, p.480) states “it is among the most basic and fundamental methods, and one which, if executed well, brings us arguably closer than many other methods to an intimate understanding of people and their social worlds”. A semi-structured approach to the in-depth interview was employed as it focused the interviews and aligned them to the fulfilment of the research objectives. The fact that the interviews were not overly regulated provided each interviewee with the opportunity to reflect on key events and actions and provide their insights into these experiences.
<table>
<thead>
<tr>
<th>Genre</th>
<th>Strategy</th>
<th>Focus of Inquiry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual lived experience</td>
<td>In-depth interviews</td>
<td>Individuals</td>
</tr>
<tr>
<td>Society and culture</td>
<td>Case study</td>
<td>Groups or organizations</td>
</tr>
<tr>
<td>Language and communication</td>
<td>Microanalysis</td>
<td>Speech events and interactions</td>
</tr>
</tbody>
</table>

(Source: Marshall and Rossman, 1999, p.61)

Elite interviewing is a type of interviewing that focuses on particular prominent or influential people in an organisation or community. These individuals can impart valuable information due to the positions they hold, such a position also enables them to provide an overall view of the organisation in question (Marshall and Rossman, 1999). Elite interviewing was deemed essential for this research. It was considered fundamental to fulfilling the research objectives of the study that an all-encompassing overview of the organisation and its subsequent demise was attained. As such the research participants were all company directors. Huber and Power (1985) endorse the validity of this choice by arguing that one of the most powerful ways of avoiding biased data is to specifically target individuals who are most knowledgeable about the issue under investigation.

However, elite interviewing is not without its disadvantages. Obtaining access to the company directors was fraught with difficulty as they are somewhat elusive individuals with busy schedules. According to Marshall and Rossman (1999) elites are often well practiced at interacting with the public and being in full control and as such may try to turn the interview around. However such actions can be mitigated through a display of competence on behalf of the interviewer.
Competency was derived through a deep immersion in a range of factors; this built a comprehension of the key issues facing start-up entrepreneurs in the ICT sector. The business failure literature was explored, legislation adaptations examined, key market trends understood and policy changes and their resultant effect considered. Thorough communication of the research objectives also proved powerful in courting the entrepreneurs and eliciting their support.

3.5 Constructing a Dataset

There was no suitable, accessible dataset available for this study. As such central to this study’s approach is the utilisation of the FAME (Financial Analysis Made Easy) database for the identification of a suitable dataset. FAME contains comprehensive information on companies in Ireland including company financials, directors and their contacts details; original filings as filed at the Companies Registration Office (CRO), detailed corporate structures etc. This research aims to aid the development of international comparisons in the future and so the European Classification of Economic Activities (NACE Rev. 2) was used to identify the industry of interest, thus the same industry can be identified easily and studied in another country using the same parameters in the future. As the focus of the study is on the ICT sector the study shall concentrate on companies that were incorporated between 01/01/97 and 31/12/07 as this was an interesting and active period in the industry. Also only firms that closed within the first five years of business were considered, as historically, younger firms are regarded as being more susceptible to failure (Kennedy, 1985; Dunne et al., 1989; Audretsch, 1995; Thornhill and Amit, 2003).

3.5.1 Search Protocol

In order to arrive at a suitable dataset a search protocol was devised to ensure that all potential interviewees fulfilled a set of standardised measures. As such the FAME database was searched by the following parameters simultaneously:

1. Only firms with a registered office address in the Republic of Ireland
2. Only firms considered private in the legal sense
3. Only firms incorporated between 01/01/97 and 31/12/07
4. Only firms that are currently inactive (dissolved, in liquidation, inactive {no precision})
5. Only firms in the Information and Communication Technology (ICT) producing services sector

Once a dataset of firms that fulfil all of the above objectives was generated the researcher then combed through the list of firms and only entrepreneurs whose firm closed down within five years of start-up and firms whose director was currently the director of a still trading firm were bought through to the final dataset. The latter constraint insured interviewees were more candid about their experience as they had recovered from the failure and begun a business again in more success circumstances. These search criteria resulted in the generation of the dataset, which was as follows:

Figure 3.1 Dataset of 203 Potential Interviewees
On identification of the 203 entrepreneurs whom fulfilled the constraints laid out above a letter was devised and circulated to all of the potential interviewees in the dataset. The letter described the nature and context of the research project and its objectives. It also outlined the proposed nature of the participant’s involvement in the project and the expected research outcomes. These outcomes were stated in terms of the value the participant’s inclusion in the study may have for future entrepreneurs and the policies affecting them, see Appendix A.

As the subject of the research can be a sensitive one for many of the potential interviewees follow up contact was required to further encourage participation. LinkedIn was utilised for the follow-up contact. LinkedIn is a business-related social networking site launched in May 2003, it is mainly used for professional networking. Given the industry being investigated for this study it was a logical progression to engage it as a contact tool. As the potential interviewees were previously unknown to the researcher on the LinkedIn platform the follow up message sent via the networking site had to be 220 characters or less, see Appendix B.

For the potential interviewees that did not use LinkedIn follow up contact was made via telephone. Given the sensitive nature of the research topic, the perceived stigma associated with business failure in Ireland and the busy lives of entrepreneurs in general, it is unsurprising that many entrepreneurs contacted did not agree to partake in the study, however persistence on behalf of the researcher prevailed and thirty individuals agreed to be interviewed. However Interviewee 11 later refused to be interviewed so ultimately thirty entrepreneurs took part in the study and they were from the four specific sectors of the ICT industry, as illustrated in Figure 3.2.
Finally, having considered in detail the contextual factors affecting firms in the study’s industry of choice, the Producing Services division of the ICT sector, Table 3.3 gives a general overview of the Interviewees that were engaged for this research. The data was taken from the FAME database. The Interviewees are displayed in Table 3.3.
Table 3.3 Interviewee Overview

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>ICT Division</th>
<th>Year of Inc.</th>
<th>Location of Firm</th>
<th>Age at time of Inc.</th>
<th>Sex</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>LT. Service Activities</td>
<td>2002</td>
<td>Galway</td>
<td>34</td>
<td>M</td>
</tr>
<tr>
<td>2</td>
<td>Telecommunications</td>
<td>2002</td>
<td>Dublin</td>
<td>39</td>
<td>M</td>
</tr>
<tr>
<td>3</td>
<td>Telecommunications</td>
<td>2005</td>
<td>Dublin</td>
<td>35</td>
<td>M</td>
</tr>
<tr>
<td>4</td>
<td>Telecommunications</td>
<td>2005</td>
<td>Limerick</td>
<td>39</td>
<td>M</td>
</tr>
<tr>
<td>5</td>
<td>Telecommunications</td>
<td>2002</td>
<td>Dublin</td>
<td>35</td>
<td>F</td>
</tr>
<tr>
<td>6</td>
<td>Software Publishing</td>
<td>2000</td>
<td>Tipperary</td>
<td>37</td>
<td>M</td>
</tr>
<tr>
<td>7</td>
<td>Telecommunications</td>
<td>2003</td>
<td>Dublin</td>
<td>46</td>
<td>M</td>
</tr>
<tr>
<td>8</td>
<td>Telecommunications</td>
<td>2004</td>
<td>Dublin</td>
<td>32</td>
<td>M</td>
</tr>
<tr>
<td>9</td>
<td>Software Publishing</td>
<td>2002</td>
<td>Dublin</td>
<td>27</td>
<td>M</td>
</tr>
<tr>
<td>10</td>
<td>Software Publishing</td>
<td>2001</td>
<td>Waterford</td>
<td>44</td>
<td>M</td>
</tr>
<tr>
<td>11</td>
<td>Software Publishing</td>
<td>2002</td>
<td>Dublin</td>
<td>39</td>
<td>M</td>
</tr>
<tr>
<td>12</td>
<td>Telecommunications</td>
<td>2003</td>
<td>Dublin</td>
<td>39</td>
<td>M</td>
</tr>
<tr>
<td>13</td>
<td>LT. Service Activities</td>
<td>2002</td>
<td>Clare</td>
<td>42</td>
<td>M</td>
</tr>
<tr>
<td>14</td>
<td>LT. Service Activities</td>
<td>2000</td>
<td>Dublin</td>
<td>38</td>
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<td>2002</td>
<td>Cork</td>
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<td>34</td>
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<td>2004</td>
<td>Kildare</td>
<td>44</td>
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<td>2006</td>
<td>Cork</td>
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<tr>
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<td>2003</td>
<td>Dublin</td>
<td>52</td>
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<tr>
<td>23</td>
<td>LT. Service Activities</td>
<td>2006</td>
<td>Dublin</td>
<td>37</td>
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<tr>
<td>24</td>
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<td>2004</td>
<td>Kildare</td>
<td>44</td>
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<td>25</td>
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<td>Limerick</td>
<td>34</td>
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<tr>
<td>26</td>
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<td>Dublin</td>
<td>34</td>
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<td>27</td>
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<td>28</td>
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<td>Leitrim</td>
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<td>Westmeath</td>
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<td>Carlow</td>
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<tr>
<td>31</td>
<td>LT. Service Activities</td>
<td>2007</td>
<td>Tipperary</td>
<td>34</td>
<td>M</td>
</tr>
</tbody>
</table>

(Interviewee 11 is white as they ultimately declined to be interviewed)

3.6 Data Collection

Semi-structured interviews were conducted over a fifteen-month period from March 2010 to May 2011. Given the sensitive nature of the research topic many potential interviewees were reluctant to participate in the research however persistence and understanding prevailed and a total of thirty interviews were
conducted. The majority (24) of interviews were telephone/skype interviews and the remainder (6) were face-to-face interviews. It was the first six interviews that were face-to-face as the researcher wanted to gauge the entrepreneurs’ reaction’s to the interview protocol and also ensure that interviewees obtained the correct meaning from each question. Once satisfied the remaining twenty-four interviews were conducted via telephone/skype. Whilst this choice was predominantly down to geography and time efficiencies a further advantage of telephone interviewing results from visual anonymity; this has the potential to reduce self-consciousness or the ‘interviewer effect’ characteristic of face-to-face interviews (Tausig and Freeman, 1988). Of the twenty-four interviews conducted via telephone and skype twenty-three of them were visually anonymous. Reducing self-consciousness is an important advantage given the sensitive nature of this study. Furthermore Sturges and Hanrahan (2004) posit that telephone interviewing is quite comparable to in-person interviews. Each interview was approximately forty-five minutes long and interview data amounted to over 400 pages of transcripts. In addition to the transcripts secondary, contextual data was gathered from the FAME database, company websites and the LinkedIn networking site to further strengthen the dataset.

3.6.1 Interview Protocol Construction

A considerable amount of time and effort was given to formulating an expert interview protocol. The study’s four sub-research questions were arrived at due to the extensive overview they provide of the failure process. Firstly the instigator of the failure process (sub-research question 1), then the response my management (sub-research question 2 and 3) and finally the affect of company collapse on ones personal and professional life. To address these research questions the same literature from which they emerged was revisited to formulate accompanying interview questions. An immersion in the business failure literature resulted in the identification of key themes and issues that affected start-up entrepreneurs, whilst the researcher also remained cognisant of the desired research objectives at all times, see Table 2.5. Once the major themes
were identified appropriate questions were considered and organised with relevance to each research question, see Appendix C.

The researcher had previously conducted research on business failure as part of a Master’s thesis and as such had an advantageous perspective from which to approach this study. In the early stages of devising the interview protocol the researcher utilised their network to contact business experts and informally discuss issues relevant to entrepreneurs in the current climate. This activity ensured all-important topics were covered whilst engaging the literature ensured that key constructs underpinned the interview protocol. The final iteration of the interview protocol was then arrived at; see Appendix D. It is important to note that given the unpredictability of each interviewee’s individual experience and the sensitivity surrounding the interview topic the researcher allowed the interviewee to talk first and then followed up with questions from the interview protocol where appropriate. This approach allowed the interviewees to settle into the interview, feel comfortable and voice their experiences in their own way whilst also allowing the researcher to fulfil the interview protocol. Semi-structured interviews gave the researcher the flexibility to divert from the interview schedule in order to pursue further information on intriguing issues that arose throughout the interview. Furthermore, some similar interview questions were phrased in different ways whilst in some cases certain question were emphasised over others where the situation dictated it necessary.

3.7 Data Analysis

According to Yin (1994, p.102) data analysis is the “examining, categorising, tabulating or otherwise recombining the evidence to address the initial propositions of a study”. However the significance of design flexibility in data analysis is also important to be aware of, as a tightly structured design often filters out interesting, unanticipated findings (Marshall and Rossman, 1999). In keeping with Yin (1994) and Marshall and Rossman (1999) the analysis of this study’s data adopted a flexible approach with a rolling focus, whereby the researcher began preliminary analysis immediately and as initial concepts
developed into greater understanding the researcher shifted and modified their key emergent themes.

When completed the interviews were transcribed and imported into NVivo. NVivo is a data management software tool developed solely as a computer aided qualitative data analysis system (CAQDAS). NVivo was used to store all the interview transcripts and secondary data gleamed from the FAME database. The researcher also stored notes and observations made after each interview as memos on the NVivo software package to refer to throughout the analysis. Engaging the transcripts the researcher used the text as an analytical device and categorised and re-categorised coded sections into a hierarchy of nodes to identify thematically coherent interpretations of the business failure process.

The researcher felt ‘data saturation’ (Bryman, 2008) was reached at eighteen interviews with few new codes or themes emerging beyond this number. The identification of a homogeneous within and heterogeneous between set of typologies was also apparent at the eighteenth interview with subsequent interviews providing further proof of the validity of the typologies and cementing their place in the study’s output.

3.7.1 NVivo

Although widely used software packages such as NVivo have been the subject of some criticism from researchers. One such criticism is that they can result in the loss of richness of the qualitative data (Silverman, 1993), whilst another reproach suggests that software programs result in an over-mechanistic approach to qualitative data (Walsham, 2006). NVivo proved a useful tool for this study and the researcher remained cognisant of the aforementioned pitfalls and made every effort to avoid them. Immediately following each interview the researcher wrote up a contact summary sheet, which detailed initial thoughts, observations and impressions of the interview. These documents gave context to the interviews and informed the coding scheme later applied to the interview transcripts. The
The coding scheme developed for this study was highly related to the overarching research objective i.e. to examine the process of decline evolves within a firm and the causal effect on management actions.

**Figure 3.3 NVivo Coding Framework**

The above figure illustrates the various node types and their hierarchy relationships. The researcher began with the study’s overarching research question. From this the study’s *master themes* were coded. Each master theme was coded as a sub-research question, whereby each theme is a sub-research question and all responses related to each sub-research question is categorised into its corresponding group. These master themes were further broken down into *tree nodes*. The initial tree nodes were developed from the literature and the contact summary sheets. Below the tree nodes in hierarchy are the *sub-theme nodes*. Detailed charts of the NVivo hierarchy coding framework is contained in Appendix E. Following on from this *free nodes* were developed, free nodes allowed the researcher to identify emergent patterns from the interview transcripts. The free nodes are not constrained by the sub-research questions and
took a holistic approach to the data examining it with the overarching research question in mind. This allowed for the identification of process typologies – Opportunist, Pragmatist, Experimentalist and Purist. Further details of the free node coding framework is available in Appendix F.

### 3.8 Establishing Rigour

Many reliability concerns are reduced through use of data management software over manual management (Duriau et al., 2007). NVivo enhances data analysis and the progression of the research whilst also serving as a valid testing instrument for data obtained in qualitative analysis (Bazeley, 2003). Engaging NVivo also makes it easier and more reliable to compare texts and data across sources (Duriau et al., 2007).

**Transparency.** Dey (1993) argues that the transparency of qualitative research is enhanced through the use of software as the researcher is forced to consider and document their thoughts and observations on the process in its early stages thereby enhancing the rigor of the qualitative enquiry. Qualitative researchers are sometimes accused of being empirically soft and subjective when analysing data (Godwin and Horowitz, 2002) however engaging data management software permits a clear audit trail that facilitates clear understanding and dispels issues surrounding subjectivity. The analytical process is coded and tracked to facilitate a clear demonstration of rigor in the approach to analysis (Richards, 2005). Furthermore Miles and Huberman (1984) argue that reliability is increased if there is a ‘chain of evidence’, through recorded interviews and hard copy documentation that lead to the theoretical assumptions. Transparency for this study was enhanced through use of NVivo software. The researcher uploaded interview transcripts and recorded thoughts and observations to the database via the memo function on the software program. It was these documents that informed and supported the choice of node coding. This in turn led to the overall hierarchical framework that guided the data analysis. These activities provide a
visible chain of evidence and document the researchers deductions thus making them less subjective and more grounded in demonstrable facts.

**Reliability.** Reliability is essentially a matter of stability, to what extent an instrument can be administered to the same individual on two separate occasions and yield the same result (Easterby-Smith et al., 1991). Seale (1999) posits that recording observations, such as interviewees unfiltered verbatim accounts is an important means of establishing reliability as it prevents the researcher reconstructing the general sense of the interviewees words and exerting personal perspectives onto them. This rationale was applied to this study and all interviews were recorded with the interviewees’ permission. Furthermore, Silverman (2006) cited the need for a thorough checking of the interview schedule to ensure that there is no ambiguity in the meaning of the questions included. The researcher made every effort to ensure that ambiguity was kept to a minimum. Firstly, conducting a comprehensive literature review ensured key constructs pertaining to business failure were understood. Secondly the researcher spoke informally to industry and academic experts to gain as much insight into the issues affecting entrepreneurs as possible, these issues were subsequently considered when devising the interview protocol. Furthermore all interviews conducted for this study were recorded and transcribed so complete verbatim accounts of entrepreneurs’ experiences were obtained further increasing reliability.

**Validity.** Research validity is the extent to which the measurement accurately reflects the concept being studied (Johnson and Duberley, 2000). The three levels of research validity identified by this study include:

- Construct validity
- Internal validity
- External validity
Construct validity is concerned with the operationalisation of variables (Yin, 1994). This was achieved through a rigorous examination of the literature, which informed the constructs employed in this research (see Table 2.5 and C). Internal validity is concerned with causality; it requires one to establish credibility when presenting causal relationships (Yin, 1994; Miles and Huberman, 1994). When analysing the data, the researcher used pattern-matching, explanation building and addressed rival explanations to strengthen the case for credibility of the internal validity of the findings. External validity is concerned with generalisability of the study’s findings beyond the immediate set of participants (Yin, 1994). Generalisability was increased by continuing to interview more interviewees long after it was felt the data saturation point was reached (reached data saturation at eighteenth interview continued until thirty interviews were conducted). Furthermore, the researcher was guided and informed heavily by existing research and literature when constructing the research objectives; this ensures that the results are comprehensive. Ultimately, however, generalisability is one of key limitations of this study as the study was conducted in a very unique context, this issue will be discussed further in the following section.

3.9 Limitations

There is no such thing as a perfectly designed study as no research project is without limitations (Marshall and Rossman, 1999). There are always trade-offs in research design (Patton, 1990). Thus, in recognising that the ultimate methodology is elusive and unlikely to be uncovered, the following section briefly details the main limitations that emerged during this research.

- A major limitation of this study centres on its generalisability. In particular the timing of this study, which was at a very precarious and unique period in the history of the Irish ICT sector. Ultimately, all of the thirty interviewees incorporated their firms between 2000 and 2007 and a stipulation of this study meant that all the firms under investigation closed down within five years of start-up, however a considerable number closed down after two years of start-up, this is positive as it means that
the majority of the interviewees were not affected by the global economic recession which occurred in 2008. However other factor need to be considered, during the period of investigation the Irish ICT sector was undergoing major contextual changes. There was unprecedented growth in the industry and Ireland became an incubator for innovation, which added greatly to the disruptive innovations that were taking place. Industry specific regulatory and legislative changes also hinders the generalisatibilty of these findings to other industries as there was numerous context specific factors unique solely to the interviewees participating in this research.

- A further limitation, which hindered the preparation and flow of this study centred on the uncertainty of obtaining access. Given the sensitive nature of the research topic and the profound affect such an experience has on certain individuals, a lot of patience and perseverance was required to ensure adequate data was gathered to sufficiently fulfil the research objectives. In some cases interviewees were contacted (in both face-to-face and telephone/skype situations) at the scheduled interview time only to be told that the interview could not be carried out that day. In another case when the interviewee was contacted at the scheduled interview time the interviewee hung up after being greeted and then powered off their phone, highlighting the reluctance some interviewees had even after agreeing to an interview. Telephone interviews were regarded as the most appropriate format to conduct the data collection as it provided the interviewees with a certain degree of anonymity. This anonymity made the interviewees less self-conscious which in turn helped the researcher solicit more frank responses. Telephone and skype interviews also meant that rescheduling the interviews was less of an ordeal for both the researcher and the interviewee. Interviews were conducted at times the interviewee was most comfortable were changed at the interviewees behest, the core objective being to make the interviewee feel at ease.
Weisberg, Krosnick, and Bowen (1989) believe that asking questions about highly sensitive topics can be problematic as interviewees may prefer to save face and remain respectable in the eyes of the interviewer. Such problems were encountered, as some interviewees were apprehensive about discussing issues that may imply the company failure was down to one particular individual and their actions. The rationale for the study was explained to the interviewees and they were assured that the study was not focused on attributing blame.

All interviewees interviewed as part of this study were company directors of consequently failed firms, it is recognised that this provides a view of failure from a confined perspective. A more comprehensive overview of the failure process may have been determined by incorporating the views of other stakeholders in the firm.

Given the phenomenological perspective embraced in this study it is acknowledged that the researcher is part of the research process and as such ones actions, reactions, interpretations and rhetoric are an innate part of the research process and cannot be separated from it (Giddens, 2001). As such a possibility of researcher bias is acknowledged. The researcher tried to combat some of the research bias through adhering to strict constraints when devising the pool of potential interviewees. Furthermore engaging NVivo as an analysis tool helped to mitigate researcher bias.

3.10 Conclusion

This chapter detailed the research design and methodological approach adopted by the researcher to fulfil the study’s objectives. The chapter opens with a discussion of the two dominant research foundation paradigms and then
progresses to present the study’s research and sub-research questions and accentuates the argument for the study’s phenomenological underpinnings. The next section examines the process by which an appropriate dataset was devised and the formulation of the interview protocol. The chapter then detailed the data analysis methodology and discussed the use of NVivo. Finally, the study’s rigour was established and the limitations of the research were acknowledged and presented.
CHAPTER 4: CONTEXT

4.1 Introduction

This chapter will outline the frame of reference and the contextual setting of the study. It will guide the development, and ultimate evolution of the Irish ICT producing services sector using environmental analysis. The principal aim of this chapter is to illustrate the Irish ICT producing services sector through economic, political, social and legislative lenses. The chapter commences with an examination of the ICT sector with particular attention being placed on the specific area of interest, the producing services sector. The growth of the ICT sector is then explored and the sector’s position in the Irish economy is discussed. Following this an overview of the sector’s development is provided and the precise role of the Irish government in this development is addressed. Finally, the chapter concludes with a look at the ICT landscape in Ireland and an brief overview of the study’s interviewees is presented.

4.2 Defining the ICT Sector

Since the late 1990’s Ireland has witnessed unprecedented growth in the ICT industry (Pilat et al. 2002). Within the ICT industry the producing services sector, which is the focus of this study, is particularly large in Ireland compared to its OECD counterparts (Pilat et al. 2002). The market has transformed into an incubator for innovation. Ireland is the location of choice for some of the leading players in the ICT industry (Koski et al., 2002). Global firms such as Google, Twitter, Facebook and LinkedIn have all located their European headquarters in the Irish capital, Dublin. Thus the industry is important to both the Irish economy and society, this impact will be further investigated in this chapter.

The Information and Communication Technology (ICT) sector is defined as a combination of manufacturing and services industries, which are primarily intended to fulfil or enable the function of information processing and
communication by electronic means, including transmission and display (Pilat et al. 2002). According to Koski et al. (2002, p.145) the ICT sector is “arguably the most powerful agent for change in advanced societies” In order to segment the industry of interest the second revision of the European Classification of Economic Activities (NACE Rev.2) was employed. This classification has been approved by the European Commission and is widely used in Ireland as a means of industry classification. The ICT industry is comprised of four key sectors namely Manufacturing Activities, Repair and Trade Services, Producing Services and Content and Media Activities.

4.3 The ICT Sector and its Position in the Irish Economy

Although the ICT-producing sector is relatively small it has the potential to make a relatively large contribution to growth and productivity performance if it grows more rapidly that the rest of the economy (Pilat et al., 2002). In Ireland the software production sector is particularly large and so boosts the relative size and productivity of the producing services sector (OECD, 2002a). Figure 4.1 highlights the share of the ICT sector in the economy. The diagram shows that Ireland’s ICT sector is a greater contributor to the Irish economy than the contribution their ICT sector counterparts make to their relevant economies.
However it is not just on an national level that Ireland’s ICT sector is having an impact, in a study by Koski et al. (2002), which included ICT industry heavy weights such as USA, Japan, Sweden and Finland, Ireland came out as the most ICT export-oriented country in the sample since 1995. The study also concludes that there appears to be a clear tendency of ICT-related production and innovation to cluster geographically and Ireland is one of those clusters, with a current specialization in ICT production, technology and trade (Koski et al., 2002). Ireland’s ICT exports exceeded imports by 5.8 billion USD, making Ireland the economy with the greatest ICT trade balance amongst the US and all EU member states (Quah, 2001). Table 4.1 shows Ireland’s percentage share of the world total of exports of computer and information services, with Ireland, second only to India.
Table 4.1 Top 10 Exporters of Computer and Information Services, 2009*

<table>
<thead>
<tr>
<th>Economy</th>
<th>Exports</th>
<th>Share of world total (%)</th>
<th>CAGR 2000–2009 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>46687</td>
<td>23.9</td>
<td>29</td>
</tr>
<tr>
<td>Ireland</td>
<td>33803</td>
<td>17.3</td>
<td>18.2</td>
</tr>
<tr>
<td>Germany</td>
<td>14822</td>
<td>7.6</td>
<td>16.3</td>
</tr>
<tr>
<td>United States</td>
<td>13378</td>
<td>6.8</td>
<td>10.1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>11577</td>
<td>5.9</td>
<td>11.6</td>
</tr>
<tr>
<td>Israel</td>
<td>7671</td>
<td>3.9</td>
<td>6.8</td>
</tr>
<tr>
<td>Sweden</td>
<td>6858</td>
<td>3.5</td>
<td>21.5</td>
</tr>
<tr>
<td>Finland</td>
<td>6701</td>
<td>3.4</td>
<td>47.5</td>
</tr>
<tr>
<td>China</td>
<td>6512</td>
<td>3.3</td>
<td>38.1</td>
</tr>
<tr>
<td>Netherlands</td>
<td>6118</td>
<td>3.1</td>
<td>20.2</td>
</tr>
</tbody>
</table>

*($ million, %) (Source: Unctad, 2011)*

Ireland’s position as an elite ICT economy was not accidental; it was actively pursued by the Irish government through a series of policies such as FDI incentives, ensuring there was a skilled workforce and modernising the country’s physical and technological infrastructure (Coe, 1999). These will be looked at in more detail in the sections 4.5 and 4.6.

Each of these key sectors is further broken-down into smaller sub-sectors. A overview of the various facets of the ICT sector are displayed in Figure 4.2 with the Producing Services sector (the sector of interest for this study) and its components highlighted in yellow.
4.4 The Growth of the ICT Sector

In the late 1990’s and the early 2000’s the Irish economy was regarded globally as a notable success story. In the 1990s it was ranked as the fastest growing
In the European Union, Irish GDP stood at $165.1 billion (CIA, 2006) and had an estimated per capita income (based on GDP) that significantly exceeded the EU average (Harrigan et al. 2008). This period of both intense economic success and rapid social change became known as the “celtic tiger” era (Kirby, 2004). Scarpetta (2003) regards the success of the ICT industry and specifically the software sector, which accounts for 8 percent of GDP as a key factor for this success. Figure 4.3 charts the exponential growth that took place in the ICT industry using figures derived from the FAME database. In the period of interest the number of new firms incorporated annually grew by over 450 percent, increasing from 166 firms in 1997 to 771 in 2007.

**Figure 4.3 New Firms Incorporated Annually in the ICT Industry**

![Graph showing exponential growth in new firms incorporated annually in the ICT industry](image)

(Source: FAME, 2011)

*Figures derived from the FAME database through use of the following search queries:
1. Firms in the ICT industry as segmented by NACE Rev.2
2. Firms with a registered office address and/or primary trading address in the Republic of Ireland.
3. Firms incorporated each year from January 1st through to December 31st, years 1995 to 2011.*
In Ireland ICT services constitute between seventy percent and ninety percent of the total ICT sector value added (OECD, 2002). Figure 4.4 depicts the number of new firms incorporated in the ICT industry broken down into its four key sectors. It is clear that it is the Producing Services sector of the ICT industry that is the main contributor to the growth explosion. Given its importance to the Irish economy and its interesting growth trajectory the Producing Services sector of the ICT industry shall be the focus of this study.

**Figure 4.4 New Firms Incorporated Annually in the ICT Industry by Sector**

![Graph showing new firms incorporated annually in the ICT industry by sector from 1995 to 2010.](image)

(Source: FAME, 2011)

*Figures derived from the FAME database using the same queries as previous chart but by further breaking down the ICT industry into its four key sectors using the NACE Rev. 2 coding scheme.

The level of new firm creation in the Producing Services sector is consistent with the trend in Europe towards positioning itself predominantly as a services sector and less of a manufacturing sector, as producing services is a more value adding activity (Wintjes and Dunnewijk, 2008). A reason for this is likely due to the fact that over three times more ICT business research and development expenditure is being spent on ICT services research and development compared to ICT manufacturing research and development (OECD, 2008).
Using the NACE Rev. 2 classification scheme the Producing Services Sector was further segmented into four divisions to determine the number of firms incorporated on a yearly basis. The results of which are shown in Figure 4.5. It is apparent that the software publishing and IT service technology divisions were particularly booming throughout the turn of the century. With regards to the software sector Harrigan et al. (2008) state that 85 percent of software manufacturers based in Ireland are Irish owned and managed. In Europe, the mark of Ireland’s software sector is indelible with 40 percent of packaged software and 60 per cent of business application software sold, produced in Ireland (Harrigan et al., 2008).

Figure 4.5 Firms Incorporated in the Producing Services Sector by Division

*Figures derived from the FAME database using the same queries as previous charts but by further breaking down the Producing Services sector of the ICT industry into its four main divisions using the NACE Rev. 2 coding scheme. **The total number of firms for all four divisions of the producing services sector is greater than the number of firms in the producing services sector as some companies fall into two or more categories of activities as classified by the NACE Rev. 2 classification scheme.
4.5 The Development of the ICT Sector

Ireland started its strategy to pursue growth in the software sector in the mid-1980s as the European market was expanding; the country has since become an important centre for software development and production in Europe (Coe, 1999). The Government of Ireland played a leading role in steering economic growth and encouraging foreign investment (Coe, 1999) and Ireland’s growth and exporting performance in the late 1990’s has been primarily attributed to the country’s success in attracting FDI (Al-Jaghoub and Westrup, 2003; Grimes, 2003). In 1998 there were in excess of 1,200 overseas companies in Ireland directly employing 127,000, 500 of these companies were from the US, employing 74,000 people (Grimes, 2003) Ireland’s ability to attract FDI came from a multifaceted approach from the government (Al-Jaghoub and Westrup, 2003). The country positioned itself as a knowledge intensive economy with a highly skilled workforce (McBrierty and Kinsella, 1998). Furthermore, Ireland is, in a geographic sense, a peripheral economy, yet it is also a gateway to the European economy and a low corporation tax rate (Figure 4.6) contributed to making Ireland the location of choice for many global ICT firms (Koski et al., 2002).
The effects of the ‘celtic tiger’ era were largely positive with GDP growing by 9% annually between 1994 and 2002 making Ireland the fourth richest country in the world after Luxembourg, Norway and Sweden (Lyons et al, 2009). Table 4.2 illustrates the main economic indicators that were affected by the economic upshot.
Table 4.2 Ireland’s Economic Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Seasonally Adjusted Annual Average Standardised Unemployment Rates (SUR) (%) by Year*</th>
<th>Annual Inflation December versus December**</th>
<th>Real GDP Growth***</th>
<th>Long-term Interest Rate (% per Annum***</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>12.1</td>
<td>2.33</td>
<td>9.6</td>
<td>8.226</td>
</tr>
<tr>
<td>1996</td>
<td>11.5</td>
<td>1.99</td>
<td>8.1</td>
<td>7.249</td>
</tr>
<tr>
<td>1997</td>
<td>10.3</td>
<td>1.81</td>
<td>11.5</td>
<td>6.256</td>
</tr>
<tr>
<td>1998</td>
<td>7.4</td>
<td>1.78</td>
<td>8.4</td>
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<td>1999</td>
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<td>2002</td>
<td>4.4</td>
<td>4.96</td>
<td>6.5</td>
<td>4.988</td>
</tr>
<tr>
<td>2003</td>
<td>4.6</td>
<td>2.02</td>
<td>4.4</td>
<td>4.125</td>
</tr>
<tr>
<td>2004</td>
<td>4.5</td>
<td>2.65</td>
<td>4.6</td>
<td>4.062</td>
</tr>
<tr>
<td>2005</td>
<td>4.4</td>
<td>2.36</td>
<td>6.2</td>
<td>3.321</td>
</tr>
<tr>
<td>2006</td>
<td>4.4</td>
<td>4.93</td>
<td>5.4</td>
<td>3.789</td>
</tr>
<tr>
<td>2007</td>
<td>4.6</td>
<td>4.70</td>
<td>6.0</td>
<td>4.328</td>
</tr>
<tr>
<td>2008</td>
<td>6.4</td>
<td>1.15</td>
<td>-3.0</td>
<td>4.550</td>
</tr>
<tr>
<td>2009</td>
<td>11.8</td>
<td>-5.00</td>
<td>-</td>
<td>5.233</td>
</tr>
<tr>
<td>2010</td>
<td>13.3</td>
<td>1.29</td>
<td>-</td>
<td>5.993</td>
</tr>
</tbody>
</table>

(Sources: *CSO, 2011 **inflation.eu, 2011 ***OECD, 2011)

Long-term interest rates were halved between 1995 and 2003, this allowed people with a desire to set-up a business greater access to finance whilst also incentivising people with reserves of cash to invest in new opportunities. Unemployment rates also decreased by almost 70 percent in the period between 1995 and 2001, this illustrates the level of business activity and growth going on with the country. The substantial jump in prices particularly between 1998 and 2002, indicated by the annual inflation rate growth, shows the increased wealth in the country and how this wealth was reflected through a rise in prices.
Whilst the country’s economy enjoyed buoyancy, much of the employment growth and prosperity was associated with FDI and “the sustainability of a development model based on an inordinate dependence on such investment” was a continued source of unease (Grimes, 2003, p. 4). See Table 4.3 for the indigenous versus FDI relationship that existed in the Irish ICT and Software Sectors.

**Table 4.3 FDI and the Irish ICT and Software Sectors, 2005**

<table>
<thead>
<tr>
<th></th>
<th>ICT</th>
<th>Software</th>
<th>ICT</th>
<th>Software</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Firms</td>
<td>Employees</td>
<td>Firms</td>
<td>Employees</td>
</tr>
<tr>
<td>FDI</td>
<td>300</td>
<td>55,000</td>
<td>200*</td>
<td>14,000*</td>
</tr>
<tr>
<td>Indigenous</td>
<td>&gt;700*</td>
<td>45,000*</td>
<td>600</td>
<td>11,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>&gt;1,000</td>
<td>100,000</td>
<td>800</td>
<td>25,000</td>
</tr>
</tbody>
</table>

* Estimated Value (Source: Martinez-Solano, Giblin and Walshe, 2005)

The unease, cited earlier by Grimes (2003) about the sustainability of FDI was founded as when a serious slowdown occurred in the US technology sector in early 2000, global cost-cutting measures were enforced by many of the ICT multinationals. Some of the main job losses in the Information Technology sector that affected Ireland are detailed in Table 4.4.

**Table 4.4 Job Losses in the Irish IT Sector Following the US Downturn**

<table>
<thead>
<tr>
<th>Month</th>
<th>Company</th>
<th>Number of Jobs Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 December</td>
<td>Motorola</td>
<td>750</td>
</tr>
<tr>
<td>2001 May</td>
<td>Dell</td>
<td>200</td>
</tr>
<tr>
<td>June</td>
<td>Dell</td>
<td>125</td>
</tr>
<tr>
<td>June</td>
<td>Nortel</td>
<td>890</td>
</tr>
<tr>
<td>June</td>
<td>Xerox</td>
<td>400</td>
</tr>
<tr>
<td>July</td>
<td>Intel</td>
<td>170</td>
</tr>
<tr>
<td>August</td>
<td>Gateway</td>
<td>900</td>
</tr>
</tbody>
</table>

(Source: Eurofound, 2002)
Whilst at the time this appeared worrisome for the IT industry in Ireland, research has proven that the unemployment rate can have a positive and significant effect on entrepreneurship (Lee et al, 2004). According to the Europe Innova Report the main success factor for innovative ICT SME’s is human capital conversely the lack of human capital is the main barrier to growth for innovative ICT SME’s (Wintjes and Dunnewijk, 2008). The ICT production sector is highly knowledge intensive and ICT is in fact the most human resource intensive sector of all systematic sectors in science and technology and this intensity is progressively increasing (Wintjes and Dunnewijk, 2008). Thus it is vital that the government and policy-makers encourage a highly skilled, educated workforce that can drive the sector and stimulate its growth; the Irish government has striven to turn the country into an incubator for innovation and ICT promotion and this is evident in the education system.

Table 4.5 shows the upward trend in the number of graduates leaving college with tertiary type A and advanced research educations as these programmes produce highly skilled, educated individuals.

Table 4.5 Number of Graduates*

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Number of Graduates (All types of education)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>23083</td>
</tr>
<tr>
<td>1999</td>
<td>24592</td>
</tr>
<tr>
<td>2000</td>
<td>27362</td>
</tr>
<tr>
<td>2001</td>
<td>28381</td>
</tr>
<tr>
<td>2002</td>
<td>30576</td>
</tr>
<tr>
<td>2003</td>
<td>35782</td>
</tr>
<tr>
<td>2004</td>
<td>37069</td>
</tr>
<tr>
<td>2005</td>
<td>39483</td>
</tr>
<tr>
<td>2006</td>
<td>41760</td>
</tr>
<tr>
<td>2007</td>
<td>43676</td>
</tr>
<tr>
<td>2008</td>
<td>44113</td>
</tr>
</tbody>
</table>

* Leaving College with Tertiary Type A and Advanced Research Educations

(Source: OECD, 2011)
The ICT producing services sector requires the highest level of proficiency and expertise out all ICT industries, so a highly skilled workforce is a prerequisite for the sector to thrive (Van Ark and Piatkowski, 2004). Furthermore Figure 4.7 displays the number of science and engineering graduates per 1000 of the population aged 20-34 in 2000. Ireland compares favourably with the EU-15 average and individual countries.

Figure 4.7 Science and Engineering Graduates* 2000

*Per 1000 of the population aged 20-34 in 2000

(Source: Engineers Ireland, 2004)

4.6 The Role of the Government

Given the country’s shift towards a knowledge-based economy and the uncertainty surrounding an over-reliance on FDI, it became clear that a greater proportion of the country’s wealth needed to be generated from indigenous
enterprise (Djei, 2006). Table 4.6 provides an overview of the nuances between the number of Irish and foreign owned firms and the number of individuals they employed in 2005.

**Table 4.6 Irish and Foreign Owned ICT Firms in Ireland, 2005**

<table>
<thead>
<tr>
<th></th>
<th>Irish Owned Firms</th>
<th>Number of Employees in Irish Owned Firms</th>
<th>Foreign Owned Firms</th>
<th>Number of Employees in Foreign Owned Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ICT Manufacturing</strong></td>
<td>61%</td>
<td>3,400</td>
<td>29%</td>
<td>24,500</td>
</tr>
<tr>
<td><strong>ICT Services</strong></td>
<td>94%</td>
<td>30,600</td>
<td>6%</td>
<td>24,200</td>
</tr>
</tbody>
</table>

(Source: Ecorys Report, 2009)

Table 4.6 shows that whilst Irish owned firms dominate the Irish ICT sector in number, they are smaller in size relative to foreign owned firms. As such foreign owned firms actually employ over 30% more people. The Irish government wanted to encourage entrepreneurship and stimulate innovation within the country to lessen the reliance on FDI. Table 4.7 highlights the main actors whose role was to encourage entrepreneurship and innovation and the main tasks that they were charged with. These actions will be discussed in greater detail in the remainder of this section.

**Table 4.7 Important Actors for Innovation**

(Source: Cooney, 2008)
4.6.1 Promotion

The Department of Enterprise, Trade and Employment (DETE) sought to transform knowledge into viable products and services in order to promote innovation, their primary objective being to promote investment in R&D (Cooney, 2008). Enterprise Ireland aids promotion through its commitment to the Innovation Partnership Initiative, which is designed to encourage and establish links between enterprise and the research community. The CEB’s operate the Student Enterprise Awards and the Entrepreneur of the Year Awards the former aims at targeting the nations youth and instilling them with the entrepreneurial spirit whilst the later incorporates a female specific category in an effort to promote female entrepreneurs. Furthermore the Department of Education run an annual Young Scientist of the Year Award to further nurture the development of the knowledge economy (Cooney, 2008).

4.6.2 Education

A review of the primary level curriculum has seen the addition of new teaching methodologies to stimulate an interest and awareness in science at a young age. Transition year, at second level education and Institutes of Technology at third level have also been targeted in an effort to encourage the number of science and science related graduates (Cooney, 2008).

4.6.3 Barriers

Ireland’s Innovation Strategy has prioritised the removal of barriers to the mobility and flow of knowledge between academic institutions and businesses, furthermore the European Network of Mobility Centres has made efforts to reduce barriers created by the low mobility flow of researchers (Building Ireland’s Knowledge Economy Report, 2004). Improving the network of international researchers is important for domestic knowledge and Mobility Centres allow Irish researchers access to international research facilities. The Irish Universities Association runs Irelands national mobility centre and assists
researchers seeking employment in both academia and industry (Cooney, 2008). The Action Plan for Innovation in Ireland aims to incentivise careers in research in an effort to increase the level and quality of domestic R&D (Cooney, 2008; Building Ireland’s Knowledge Economy Report, 2004).

4.6.4 Financing

The government has developed Innovation Vouchers to promote innovation across all sectors. Vouchers can be exchanged for expert counsel and information from accredited knowledge providers. Furthermore Knowledge Acquisition Grants are being developed to enable small, manufacturing and internationally traded services businesses, to access research, expertise and facilities in higher education institutes, research bodies and private enterprises (Cooney, 2008). A funding program called the Commercialisation of Research and Development (CORD) grant is designed by EI to assess and enhance commercial viability of new innovative technologies from third-level institutes to facilitate technology transfer between the public and private sector (EI, 2005).

4.6.5 Business Support

EI facilitates the flow of ideas and knowledge from research bodies to start-ups firms and established businesses. Technology specialists and financial advisors assist in guiding firms towards a more innovative culture (Cooney, 2008). An Innovation Management programme allows companies to develop their R&D management skills and maximise their commercial effectiveness. EI is also responsible for administrating the Research, Technology and Innovation (RTI) Initiative, designed to help commercially focused businesses meet challenges by increasing R&D performance (Cooney, 2008).
4.6.6 Target Groups

Gender balancing and female participation in what has traditionally been regarded as male dominated industries (Science and Engineering) has also been the target of the innovation strategy. Encouraging youth interest in scientific subjects is addressed and the Gender Equality Unit makes recommendations as to measures the government can take with its innovation policies to incorporate gender equality perspective (Forfas, 2007).

4.6.7 The Results

All the aforementioned initiatives were designed to boost the ICT industry and in particular the value adding producing services sector (Djei, 2006). The actions of the government appeared to have the desired effect as the 2007 GEM report stated that 8.2% of the adult Irish population were actively planning or had recently established a new business venture, one of the highest rates found amongst the 23 countries examined by GEM. The government interventions are focused on creating an environment for innovation and growth. It also aligns with Irish governments desire for a knowledge-based economy. The level of innovation increased within the country as Figure 4.8 shows the number of patents filed each year by Irish firms. It is also important to note that ICT service firms apply for patents less often than ICT manufacturing firms as they are more likely to use copyright and informal strategic methods to protect their IP, thus the actual levels of innovation is likely to be higher than the following diagram suggests (Wintjes and Dunnewijk, 2008).
A further indication that the government initiatives had a positive effect on the ICT sector comes from Eurostat (2011) who found that in 2008 Ireland were amongst the top five out of the 27 European Union member states for the percentage of employees in the information and communication sector (see Table 4.8). Furthermore Eurostat (2011) state that in 2008 Ireland’s most specialised activity was information and communication services. Ireland was also amongst the top five European Union – 27 for the percentage of employees involved in scientific and technical activities (see Table 4.9).
Other factors also played a role in encouraging innovation and new enterprise development will be discussed in section 4.7.

### 4.7 ICT Landscape and Interviewee Overview

One of the key drivers behind growth in the ICT sector in particular has been the large-scale deregulation of the communications industry the extent of which can be seen in Table 4.10. The table illustrates the changes that have occurred to make entry into the market, public ownership and market structure more

---

**Table 4.8 Concentration & Specialisation: Information & Communication, 2008**

<table>
<thead>
<tr>
<th>Largest Member States</th>
<th>Share of EU-27 (%)</th>
<th>Most specialised Member States</th>
<th>Share of non-financial business economy (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>21.9</td>
<td>Sweden</td>
<td>6.7</td>
</tr>
<tr>
<td>Germany</td>
<td>19.2</td>
<td>Finland</td>
<td>6.3</td>
</tr>
<tr>
<td>France</td>
<td>14.6</td>
<td>United Kingdom</td>
<td>6.1</td>
</tr>
<tr>
<td>Italy</td>
<td>10.1</td>
<td>Luxembourg</td>
<td>6.1</td>
</tr>
<tr>
<td>Spain</td>
<td>7.6</td>
<td>Ireland</td>
<td>5.6</td>
</tr>
</tbody>
</table>

(Source: Eurostat, 2011)

---

**Table 4.9 Concentration & Specialisation: Scientific & Technical Activities, 2008**

<table>
<thead>
<tr>
<th>Largest Member States</th>
<th>Share of EU-27 (%)</th>
<th>Most specialised Member States</th>
<th>Share of non-financial business economy (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>23.1</td>
<td>Netherlands</td>
<td>11.9</td>
</tr>
<tr>
<td>Germany</td>
<td>19.3</td>
<td>Luxembourg</td>
<td>10.5</td>
</tr>
<tr>
<td>France</td>
<td>15.5</td>
<td>United Kingdom</td>
<td>10.5</td>
</tr>
<tr>
<td>Italy</td>
<td>10.3</td>
<td>Ireland</td>
<td>9.4</td>
</tr>
<tr>
<td>Spain</td>
<td>7.2</td>
<td>Sweden</td>
<td>8.6</td>
</tr>
</tbody>
</table>

(Source: Eurostat, 2011)
enticing. The regulation is measured on a scale of 0 to 6 with 6 being highly regulated and 0 deregulated.

**Table 4.10 Regulation of the Communications Sector (Scale 0-6)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Entry</th>
<th>Public Ownership</th>
<th>Market Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>5.56</td>
<td>6</td>
<td>5.93</td>
</tr>
<tr>
<td>1996</td>
<td>5.36</td>
<td>4.8</td>
<td>5.81</td>
</tr>
<tr>
<td>1997</td>
<td>5.22</td>
<td>4.8</td>
<td>5.64</td>
</tr>
<tr>
<td>1998</td>
<td>4.04</td>
<td>4.8</td>
<td>5.33</td>
</tr>
<tr>
<td>1999</td>
<td>0</td>
<td>2.43</td>
<td>5.11</td>
</tr>
<tr>
<td>2000</td>
<td>0</td>
<td>.07</td>
<td>4.91</td>
</tr>
<tr>
<td>2001</td>
<td>0</td>
<td>.01</td>
<td>4.66</td>
</tr>
<tr>
<td>2002</td>
<td>0</td>
<td>0</td>
<td>4.62</td>
</tr>
<tr>
<td>2003</td>
<td>0</td>
<td>0</td>
<td>4.58</td>
</tr>
<tr>
<td>2004</td>
<td>0</td>
<td>0</td>
<td>4.04</td>
</tr>
<tr>
<td>2005</td>
<td>0</td>
<td>0</td>
<td>3.51</td>
</tr>
<tr>
<td>2006</td>
<td>0</td>
<td>0</td>
<td>3.38</td>
</tr>
<tr>
<td>2007</td>
<td>0</td>
<td>0</td>
<td>3.89</td>
</tr>
<tr>
<td>2008</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

(Source: http://stats.oecd.org/Index.aspx)

Prior to deregulation in 1998 the market was dominated by state owned Telecom Éireann yet following deregulation the sector became privatised and far more competitive, environments with increased competition leads to an increased investment in research and development which in turn results in further innovation (Wintjes and Dunnewijk, 2008). If one looks at the number of patents filed in the ICT sector, in Figure 4.8, one can see that the number rose by more than 100% in the year following deregulation and continued to increase in subsequent years.

The technological landscape and infrastructure of the country also underwent major changes at the turn of the century with a surge in the uptake of communication devices and access to communication paths. The extent of this is shown in Table 4.11
When looking at growth and an increase in the number of new firms incorporated in an industry, it is important to also examine the level of failure in that industry to get a clearer picture of the market landscape. Unfortunately, important statistics for Ireland are frequently not available due to poor data and non-aggregated information (Eurostat, 2011). This section gives a broad-spectrum look at business failure in Ireland using the information available. Firstly, Figure 4.9 shows the annual rate of insolvencies from 2004 to 2009 in Ireland. The chart shows that the rate of insolvencies remained stable between 2004 and 2007 and then doubled between 2007 and 2008 and once again between 2008 and 2009, a period that signalled the beginning of the economic recession.
Figure 4.9 Annual Rate of Insolvencies, 2004 – 2009

An interesting aspect of this insolvency trend emerges when we look at the information technology sector over the same period. Table 4.12 shows that in 2004 insolvency in this sector stood at 14.5% of total insolvencies, second only to construction and engineering. In 2009, at the height of the recession, insolvency in the IT sector actually fell to 2.3% of total insolvencies. These figures are likely to be attributable to the level of activity in the sector, for instance the high insolvency rates in 2004 could be explained by the massive growth in firm incorporation (as detailed in Figure 4.3) that occurred in that period, whilst the low levels in 2009 may be due to less individuals entering the sector and also the increase in government initiatives aimed at supporting the sector discussed in Section 4.6.
### Table 4.12 Insolvency Results by Sector, 2004 - 2009

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction and Engineering</td>
<td>106</td>
<td>27.4%</td>
<td>593</td>
<td>37.8%</td>
<td>459.4%</td>
</tr>
<tr>
<td>Hospitality Services</td>
<td>57</td>
<td>14.7%</td>
<td>214</td>
<td>13.6%</td>
<td>275.4%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>20</td>
<td>5.2%</td>
<td>91</td>
<td>5.8%</td>
<td>355.0%</td>
</tr>
<tr>
<td>Retail</td>
<td>28</td>
<td>7.2%</td>
<td>92</td>
<td>5.9%</td>
<td>228.6%</td>
</tr>
<tr>
<td>Furnishings/Interior Design</td>
<td>-</td>
<td>-</td>
<td>120</td>
<td>7.6%</td>
<td>-</td>
</tr>
<tr>
<td>Transport &amp; Haulage</td>
<td>24</td>
<td>6.2%</td>
<td>39</td>
<td>2.5%</td>
<td>62.5%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>19</td>
<td>4.9%</td>
<td>46</td>
<td>2.9%</td>
<td>142.1%</td>
</tr>
<tr>
<td>Printing and Packaging</td>
<td>21</td>
<td>5.4%</td>
<td>34</td>
<td>2.2%</td>
<td>61.9%</td>
</tr>
<tr>
<td>Healthcare and Leisure</td>
<td>6</td>
<td>1.6%</td>
<td>62</td>
<td>3.9%</td>
<td>933.3%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>56</td>
<td>14.5%</td>
<td>36</td>
<td>2.3%</td>
<td>-35.7%</td>
</tr>
<tr>
<td>Motor Industry</td>
<td>11</td>
<td>2.8%</td>
<td>101</td>
<td>6.4%</td>
<td>818.2%</td>
</tr>
<tr>
<td>Media and Marketing</td>
<td>15</td>
<td>3.9%</td>
<td>40</td>
<td>2.5%</td>
<td>166.7%</td>
</tr>
<tr>
<td>Clothing Retail</td>
<td>18</td>
<td>4.7%</td>
<td>52</td>
<td>3.3%</td>
<td>188.9%</td>
</tr>
<tr>
<td>Security</td>
<td>6</td>
<td>1.6%</td>
<td>18</td>
<td>1.1%</td>
<td>200.0%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>-</td>
<td>-</td>
<td>19</td>
<td>1.2%</td>
<td>-</td>
</tr>
<tr>
<td>Horticulture</td>
<td>-</td>
<td>-</td>
<td>13</td>
<td>0.8%</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>387</td>
<td>100.0%</td>
<td>1570</td>
<td>100.0%</td>
<td>305.7%</td>
</tr>
</tbody>
</table>

(Source: FGS)

### 4.9 Insolvencies and Market Changes

The rate of insolvencies also has a direct impact on the macroeconomic environment. As expected the rate of insolvencies has a clear inverse relationship with real GDP, the close nature of this relationship is shown in Figure 4.10. When insolvencies were low GDP remained high but once the percentage of insolvencies began to increase a reduction in GDP soon began and the trend continued for both.
Figure 4.10 Annual Changes in Insolvencies and Real GDP*, 2005 – 2009

*GDP adjusted for inflation
(Source: Coates and Taite, 2010)

The insolvency rate also impacts the number of individuals on the live register, a relationship that is to be expected, Figure 4.11 shows that as insolvencies rise so too does the numbers on the live register. The consumer sentiment index also shows the reduced level of confidence consumers have about the economy and as expected the levels are low when insolvency is high.
Insolvencies not only impact the entrepreneur at a firm’s helm they also influence the wider society. Furthermore whilst failure levels may seem high in a particular sector this may not be an entirely negative occurrence as it can be due to increased activity in that particular sector. However the affect failure has on the macroeconomic environment is tangible and is further justification for engaging in this research.

### 4.10 Conclusions

The results of the environmental and policy driven factors have led to quantifiable societal changes. The ICT sector during the period of research (2000 – 2007) clearly was a very attractive industry to start a new firm in. Entrepreneurs had every chance of success and many of the environmental constraints were stacked in their favour this makes the research into the individuals who did not succeed in this market all the more compelling and adds
to the necessity of this research as a means of better understanding the internal factors which can contribute to the closure of a firm and the subsequent actions of the entrepreneur. However the figures show that insolvencies were high for the IT sector in particular in 2004, accounting for 14.5% of all insolvencies despite the buoyancy in the economy. The government actively pursued policies that would support the ICT sector yet failure was a common occurrence. This research aims to examine the issues affecting these firms over the industry’s formative years.
CHAPTER 5: BUSINESS FAILURE INITIATION

5.1 Introduction

This chapter begins with an exploration of the internal and external factors that impacted upon the process of decline. The chapter then progresses to examine whether the failure is the result of a strategic business decision or whether it is beyond the entrepreneur’s control. The chapter is structured by research question with each subsequent heading relating to a theme from the NVivo analysis-coding framework. The purpose of chapter 5 is to explore the data gathered from the interviews that pertains to the first two research questions whilst chapter 6 examines the final two research questions.

5.2 Internal and External Failure Factors

The first research question examines the internal and external factors that lead to the process of decline unfolding within the firm. Internal factors can are problems that arise internally in a business such as poor management practices, inadequate financial management and insufficient marketing all of which can impact the health of a firm. External factors are environmental threats that affect the firm from outside, such as technological changes, regulatory changes and market turbulence. This section examines the factors that affected this study’s set of interviewees with the objective of addressing the first research question: ‘What internal and/or external factors impacted upon the process of decline?’

Data analysis showed that both internal and external factors impacted upon the process of decline and also factors which could be regarded as a mixture of both internal and external. As discussed in the literature review the internal factors pertain to the nurture perspective or the voluntaristic school of thought whilst the external factors fall in line with the nature perspective and the deterministic school of thought (see Section 2.3). The identification of factors that are a mixture of internal and external factors stems from the fact that the study was not
wholly voluntaristic in its approach or wholly deterministic but it was aware of both philosophies and as such there was a heightened sense of awareness which picked up on decline triggers that were relevant to both internal and external approaches. These factors blur the line between internal and external issues due to their ability to be both internally derived factors and also environmental factors. The internal/external factors pertaining to this study are timing and access to capital. Timing is considered to straddle both because it includes issues such as changes in the market (external) and poorly timed market entry (internal). Also access to capital may stem from tightened credit controls in lending institutions (external) and an inability to sufficiently manage firm capital appropriately (internal), to name but a few. External forces affect both the timing of a venture and access to capital/finance, however it could be argued that a competent entrepreneur with a firm grasp on their company should have control of these issues.

5.2.1 Internal Factors

The internal factors that impacted upon the process of decline can be attributed either directly or indirectly to entrepreneurial attitude and mis-management. Internal factors played a significant role in the demise of many firms and were presented in numerous guises including inexperience, lack of market research, levels of commitment to the venture, inadequate leadership and pragmatism. These findings will be discussed in full in this section.

5.2.1.1 Lack of Formal Managerial Experience

A key issue experienced by entrepreneurs stemmed from a lack of preparedness for the task of running one’s own business. In the dataset the majority of entrepreneurs (twenty out of thirty) were engineers that had little or in some case no formal training in management. This was the case due to many interviewees developing software and technology and then attempting to bring them to the market themselves as they wanted to realise their goals without handing over the reigns to a seasoned businessperson that may dilute their vision. However for
some entrepreneurs fulfilling the dual role of engineer and entrepreneur became burdensome. Interviewee 29 sums up their management task experience “I came to the realisation that in order for us to grow I either had to take a step back from the engineering end of it and actually manage my business...or stick with engineering...which I was actually good at.” Additionally the formalised nature of the managerial tasks became too much of a burden for first time entrepreneurs, Interviewee 10 and interviewee 24, respectively, stated “There’s a lot of responsibility being a company manager” and “there was a lot of red tape and a lot of procedure”. Ultimately there is a sense amongst these entrepreneurs that they are out of their depth and unprepared for the business side of the venture and comfortable with the more technical aspects of the firm.

Interviewee 9 in particular felt a deficiency in practical managerial experience, the explosion of the software market at the time, combined with panicked investors and an innovative software product resulted in the demise of his company: “I was 21 years old...we raised 500 grand from the guys in the pub...I went out and started a huge business ...we just started out spend, spend, spend – we basically burned through the cash within 6 months and the customers that we had basically fell to the wayside. I employed too many staff, costs were too high, our sales prospects were never going to support, we had a burn rate of 68 grand a month, and we didn’t do anything it was just basically me trying to support a team where we didn’t actually have a plan in place.”

Two entrepreneurs admitted to having a lack of experience in foreseeing problems; this highlights how far out of their normal frame of reference these interviewees were operating. Specifically, Interviewee 17 said that the problems that his firm had “were problems that could have been foreseen with a bit more experience”, whilst Interviewee 6 stated “I had no industry experience”. Another entrepreneur to push outside their comfort zone was Interviewee 1; this individual lacked the engineering experience integral to his venture. This, he regarded as his downfall, as he felt that whilst he had the business acumen required to be successful his “biggest mistake” was getting involved in an
industry that he knew nothing about “and still ploughing headlong into it.” From a positive perspective having a lack of experience can be remedied and these entrepreneurs gained their required experience rapidly through action and thus utilised and drew on this experience in their proceeding entrepreneurial activities so as not to repeat past mistakes. For the majority of interviewees there was a toss up of engineering capabilities or business proficiency but a rare handful had acquired both skill-sets.

5.2.1.2 Market Research

A cohort of interviewees (six Interviewees) made the choice of conducting little or no market research that in some cases directly led to the expiration of their companies. Interviewee 18 had a blinded belief in the company to such an extent that market research was not considered necessary. Interviewee 18’s comments best portray this choice which arises when a company is built on insufficient research “I worked in America for 10 years and the American people would be going nuts for something like that and one of the biggest surprises for me was that in Ireland people just didn’t…the Irish people just didn’t believe in them…we weren’t getting any customers.” The software product just did not fit with the Irish cultures informal methods of doing business and some basic market research would have made that clear. It is important to note that the fatal error of failing to do market research was not one confined to entrepreneurs with no business background. Sales manager, Interviewee 7, admitted that their firm “didn’t do any research.” Failing to research the market at a time when momentous shifts and changes were going on in the industry was ill-considered but it was these same momentous shifts and changes that led to that behaviour as Interviewee 6 rationalised their lack of market research by saying, “everyone was running around like headless chickens” trying to catch the next wave of success. Other entrepreneurs, like Interviewee 18, were so certain their venture would be a success that market research was considered unnecessary and time wasting.
Conversely, Interviewee 28, whose fledgling company conducted market research were afforded the foresight to “shelf” the firm before investing too much time and money into the venture, as a direct result of market research. Furthermore Interviewee 3 engaged his masters programme research requirement as a means of exploring the market he wished to enter. This allowed the entrepreneur to be focused and proactive in attaining his corporate goals and as such he immediately abandoned his initial venture when he saw a better way to achieve his vision.

5.2.1.3 Narrow Focus Opportunism

Another consequential issue arising from the lack of market research presents itself in the constraining nature of focusing on too niche a market. Nine firms were set up with the intention of targeting a small pool of customers and in four entrepreneurs case’s only one customer. This niche targeting and over-reliance on one customer heralded the failure of Interviewee 17’s firm as the company failed to get the countries largest airline on-board with its software service, and without it “there was no business…the business terms didn’t hold water without Airline X.” A similar situation occurred for Interviewee 30 as that firm was conceived with the goal of tendering for one specific contract and once the company failed to win the tender “there was no point in continuing on.” Interviewee 19 also acknowledged that there was only six companies to sell their product to and “it was very fragile because if one customer decided they wanted to do something different or they were finished using a service we were back to being unprofitable again”. The reason narrow focus opportunism was quite common in Ireland was rationalised by Interviewee 19 who stated “Ireland as a market is far too small…you run out of customers very quickly before your beyond fragile if not beyond profitability”. The level of exposure that entrepreneurs bared themselves to was common across a contingent of the interviewees with a number of firms (four companies) having carried out appropriate market research and obtaining a safety net such as Interviewee 2 who agreed in advance to serve “as a contractor” with an industry heavyweight and do some small “work with one or two other companies also.”
5.2.1.4 Commitment to the Venture v Emotional Over-commitment

The level and intensity of commitment which entrepreneurs invested in their respective companies operated on a continuum with the extreme ends being well represented in the group of failed entrepreneurs questioned here. A selection of interviewees (9 interviewees) played it safe by continuing on with their full-time jobs whilst building their new company in their spare time. This became an issue for Interviewee 28 as the interviewee and the other two directors were “involved in other companies already” which was an issue as in the later half of the interview the interviewee 28 concedes that they “were involved too much in other things.” Similarly Interview 6 admitted to “grabbing all sorts of opportunities and not properly following through...starting companies etc.” Interviewee 20 reminisced that perhaps “we should have committed ourselves” in the form of a financial investment into the company in addition to time and effort as “it would have given ourselves an incentive.” This lack of commitment is polarised by the attitude of interviewee 22 who has engaged in three separate pursuits, since July 2003, to operationalise their vision for a software package, which is still deemed relevant, despite its delay to an ever changing market: “I was prepared to explore other avenues, as I say when you’ve been burnt for a lot of money and time and emotion and everything else you feel very let down and you are slow to sort of repeat that experience, but emotions rather than sort of shall we say business decisions out ultimately a decision had to be taken do you continue or do you leave it.”

Another entrepreneur worked hard at his new business venture but went to extreme and conflicting lengths to make it work as is displayed by the following sentiment from Interviewee 7: “As the business became tighter I got involved in another project in Spain which meant that I went to Spain for about 3 weeks of the month...and left the sales guys and four other people there...but the sales guys didn’t deliver the business, the business wasn’t managed properly, the guys weren’t working, the appointments weren’t...so it kind of caught me badly...it got to a stage where I had to close down...Spain didn’t work either so I came home.”
This contradictory behaviour (clearly displayed by four Interviewees) was described by Interviewee 12 as when the firm “started to run out of money” the co-director “ended up having to go contracting...maybe two or three days a week... and eventually...the pressure of trying to get the product out...the thing started to unravel basically.” Later in the interview the same director is described as “becoming too emotional about the whole thing” as he decided that he “wanted out completely” as the Interviewee felt that there was still unexplored opportunities available to the company and the product it was trying to launch. An over emotional co-director was also problematic for Interviewee 18 the company kept running for “probably about a year too long” due to the reluctance of a co-director “to let go.”

5.2.1.5 Leadership

Leadership is a managerial trait that was mentioned as significantly impacting the health of the firm by two interviewees but in the few were it was recognised as an issue it had an annihilative effect. This effect differs from the ‘experience’ factor, which was a personal, self-discovery journey whereas ‘leadership’ refers to the general level of leadership that existed in the firm from either the interviewee themselves or from other directors. The extreme lack of leadership from both the interviewee themselves and his co-partners was the source of complete disillusionment for Interviewee 30 who stated about his joint venture firm, “there was nobody in charge and it was never going to go anywhere even if we did win some of the tenders...I don’t think I’d ever do that again”. The company was set up to provide a formal structure to a consortium of companies that wanted to work together to provide different elements of service to the new venture with the goal of tendering for contracts. However the internal leadership structures were not in place to facilitate the realisation of the external façade.

Leadership in a varying guise was the cause of concern for Interviewee 21 who felt misled and charmed out of his money by an individual who appeared to be a competent leader but in actual fact “was a total cobbler” who cost the
interviewee a lot money and was the source of shame and embarrassment to the interviewee as it is admitted that “to this day I’ll never know how he took me in”. The Interviewee invested with a person who appeared to be a savvy, trustworthy leader with an attractive business idea however the individual failed to lead the firm and this lack of leadership caused the downfall of the business. Both firms discussed in this section were in a crucial stage in their development, making the transition from an idea into a realisation and so both needed strong leaders to fulfil the vision and without this both failed. Interviewee 19 who missed “having people more senior than me driving my own abilities” provided a different perspective on leadership. This interviewee has since decided to return to a large corporate environment as an employee although she does admit she would “strongly consider starting again”.

5.2.1.6 Pragmatic Action by Entrepreneurs

A definite pattern that occurred amongst a group of interviewees centres around the notion of pragmatism, whereby a firm is created in order to fulfil a particular, practical role and once that role is no longer required the firm that acted as the vehicle of pragmatism is closed down. This differs from the ‘narrow focus’ impact, as ‘narrow focus’ was a negative factor that illustrates the danger of over-reliance on a small pool of customers. Pragmatism however is a strategic approach to setting up a business and is largely positive as the entrepreneur is aware of the ventures limitations as such utilises the firm as a vehicle from which to realise their ultimate goals. Thus, the strategic intentions of the entrepreneur at the firms’ inception have a big impact on the length of the firms’ existence. Whereby when the entrepreneurs’ intentions are pragmatic and emotionally detached the firm will be immediately shutdown once it ceases to fulfil its pragmatism. Interviewee 4 is one such individual who began a firm as a safety net in order to rescue a patent from an existing firm under his control should said firm become bankrupt however the firm remained healthy and so the “doomsday scenario” company was wound down without ever getting of the ground. Interviewee 5 also began a company out of sheer pragmatism as is detailed by the following interview excerpt, “I wanted some way to...minimize my tax
returns and I got advice that this was the way to do it so I set up a limited company...so I was in that game for about two or three years...the only reason I set it up was the advice I got that this was the best way to operate.”

Similarly Interviewee 30’s company was conceived in a comparable fashion whereby three separate companies collaborated in order to tender for contracts and so another entity was created to front the combined effort of the three firms, the reasoning behind this the interviewee admits is “it was cheaper to do it this way.” However, the firm failed to win the tenders and as such the company was dissolved. Once again the pattern continued with Interviewee 23 as this interviewee set up a firm around a product that had been developed in another business, which he wished to develop further through exploring new markets and creating complementary products however when sales failed to materialise the company was expended and the product was returned to the Interviewees core business. Interviewee 13 cited a similar experience and the entrepreneur ultimately closed down the firm when “there was no benefit in continuing”.

5.2.2 External Factors

Environmental factors also had a role to play in the decline of firms in this study’s dataset. All of the interviewees became involved in the sector at a time of much change and uncertainty and as such were subjected to extreme and unpredictable market factors. Greener pastures and market implosion are the two external factors found to play a role in the firms’ demise; this will be discussed further in the remainder of this section.

5.2.2.1 Greener Pastures

Given the vast amount of changes that were taking place in the Information and Communication Technology landscape during the period of time of the study there are numerous environmental factors that impacted upon the process of
decline and ultimate closure of firms. Surprisingly one of the main drivers that culminated in the closure of multiple companies was ‘greener pastures’. Seven interviewees chose a more enticing prospect outside of their newly formed enterprise and so shutdown and abandoned their own company in order to exploit the presenting opportunity. This behaviour is indicative of the abundance of choice and prospects that were available to driven individuals at that time, it was one of those prospects that led to the neglect of Interviewee 25’s business plan: “My business partner got headhunted, he got offered a top role with an IT development company in Ireland and he decided to take it, he just couldn’t pass it up…it was a very, very good role…so literally I was at a stage where I’d lost my business partner so I needed to decide what I was going to do…so I put this on the back burner.” Interviewee 5 also describes the mobility of the market in the following statement, “I just got bored doing what I was doing…so I decided I’m going to do something different.” The interviewee had shutdown the buoyant company to return to college to retrain as a lifestyle coach and has since begun a new firm to facilitate her new role. When asked where she would be now if she had not closed the first company down, the response was, “I would probably be a multi-millionaire and never have to work again, not a word of a lie”. This illustrates that the greener pasture that influenced Interviewee 5 was rather high up on Maslow’s Hierarchy of needs that describe human motivations.

Several other Interviewees (an additional 8) also admit that they removed themselves from a firm that was not experiencing any problems in order to fulfil other goals and motivations. They felt such aspirations would be better met through a different vehicle from the company that was initially setup. Interviewee 24 exemplifies this attitude when saying, “It (the business) never really was in trouble…I moved on really. I moved on to a different field…I did not have time to really continue with what I was doing”. The ‘greener pastures’ factor as an external influencer of business failure is a positive factor. It highlights the interviewees’ entrepreneurial prowess as they are outwardly scanning their environment to exploit new opportunities that arise. It also is a positive indicator of the state of Irish economy as individuals have the ability and opportunity to move with ease between business ventures.
5.2.2.2 Market Implosion

The words of Interviewee 6, “everyone was running around like headless chickens” speaks volumes for the sheer madness that was indicative of the Irish ICT industry at the period of time in question, and the difficulty of attempting to predict what idea would succeed and what would not lead to a speculative market where rumour ruled supreme and thus companies were dogged by the fate of less successful players in their industry. The effect of market implosion had a profound impact on Interviewee 8 as is detailed by the following quotes:

“We had another investor that was prepared at the time to put in 10 million, contracts were sent to his solicitor, the last morning we met he said... It’s not a good day to be investing in telecom because I could have picked Xxxxx Telecom up this morning for €1. It was in the Irish Times that day about how Bxxxxxx Mxxxxxx took Xxxxx Telecom and its debt for €1.”

“Nobody wants to invest in Ireland, if Xxxxx Telecom can’t make it nobody can make it, this was the perception...we were totally different (from Xxxxx Telecom)...I had dealt with Xxxx Stockbrokers as well regarding possible interested parties (investors)...they said nobody wants to invest in that segment at this time.”

The unstable market heralded the end for Interviewee 28’s potential customers as it was conceded that the market, “just disappeared really, the whole business, it evaporated and a lot of them went bust, went to the wall”. Furthermore Interviewee 6 admitted there were “some spectacular failures at that time”. Given the vigour with which the technology explosion took hold in Ireland a host of the issues cited by a third of interviewees indicate a turbulent, changeable marketplace. However the individual experiences were vastly different for each interviewee. For example, Interviewee 3 felt the volume of new players in the market, which made it hypercompetitive, negatively affected their business. Interviewee 30 felt Ireland’s “shrinking market” contributed to their firms demise. Regulatory changes in the marketplace affected Interviewee 15 to such an extent that his firm were no longer viable in the marketplace, whilst
interviewee 7 found their market dropping away due to decreased investment in the sector.

5.2.3 Intersection of Internal and External Factors

The following factors which impact upon the demise of the firms involved in this study straddle the line of both internal and external factors and as such shall be contained in the following intersection. These factors blur the line between internal and external issues due to their ability to be both internally derived factors and also environmental factors. The internal/external factors pertaining to this study are timing and access to capital. Timing is considered to straddle both because it includes issues such as changes in the market (external) and poorly timed market entry (internal). Also access to capital may stem from tightened credit controls in lending institutions (external) and an inability to sufficiently manage firm capital appropriately (internal), to name but a few. External forces affect both the timing of a venture and access to capital/finance, however a competent entrepreneur with a firm grasp on their company should have these issues in check.

5.2.3.1 Timing: Market and Personal Perspective

There are many points that were raised in the interviews that refer to the appropriateness of the timing of the venture that the interviewees respectively embarked upon. This is indicative of the agile and adaptive market environment and regulatory landscape within which the firms were vying for success or even existence. Interviewee 25 felt that a valuable opportunity was not capitalised on at a time when it was most relevant to the market as is exemplified by the proceeding interview excerpt: “I was at a stage where I’d lost my business partner so I needed to decide what I was going to do...so I decided to put this on the back burner for a few months...6 months became 12 months and 12 months became 2 years...so just looking at the idea, effectively things like Facebook and stuff started to come onboard...so if you’ve missed the boat you’ve missed the
boat.” The Interviewees ability to readily accept their company’s ill-fate illustrates a lack of commitment to the endeavour. Interviewees 9 and 20 felt that the immaturity of the technology at that time played against their more advanced offerings to the industry as postulated by Interviewee 9: “They (potential customers) were not taking a chance on us because the technology that we had was so advanced...so that’s the main reason why it failed, the technology was too new and nobody had heard of us.”

On a varying approach to the same fundamental issue of timing Interviewee 15 saw a new opportunity open in the Irish electricity market following regulatory modifications which saw the structure of the market “move from a bilateral market to one known as a gross pool...so we set up...a company”, however restrictions were also subjected to change in the months that followed which led to the obsolescence of interviewee 15’s consulting firm as it was deemed not independent enough for a fair tendering environment to be promoted. Additionally inappropriate timing had a big effect on Interviewee 14 who recognised that “the major issue for the venture capital company that I worked for was that they (company) had come reasonably late to the fund.”

5.2.3.2 Access to Capital

Ability to obtain capital is another stumbling block which interviewees encountered given the precarious nature of the industry. Some like Interviewee 9 found it frighteningly easy and recalls “I was having a cash problem and there’s a pub just up the road here which I still don’t walk past because I earned most of the cash from the guys in the pub...it was like putting a bet on a horse and I raised just under 500K.” However other interviewees had a very different experience with finance (or lack thereof) as detailed by Interviewee 8, “we suffered, we were operating on a shoestring, these people (competitors) had huge money behind them.” Also when Interviewee 26 was asked what knowledge was acquired from the experience of business failure the prompt response was “money doesn’t grow on trees.” A simple lack of finance also spelt the end for
the firm which Interviewee 14 was a director of, he acknowledged that “the fund began to become very short on cash for investing...there was a reluctance over time to continue to finance this.” Another perspective of the influence of financial investment on the health and wellbeing of firms is offered by Interviewee 20 who felt that if the directors committed themselves more in the form of cash investment it would have provided them with more of “an incentive” to make the venture a success. On another strata Interviewee 18 stated, “we didn’t deal with the important stuff like proper cash flow primarily.”

5.3 Summary of Internal and External Failure Factors

The analysis of the interviews which has been presented above shows that both internal and external issues impact upon the process of decline as well as factors that could be regarded as a mixture of both internal and external. However, overall internal factors were the main factors that came forth from the data as having the most impact on the process of decline. This finding is in line with the nurture perspective or the voluntaristic school of thought as discussed in Chapter 2, Section 2.3.2. A full list of the internal and external factors that impacted upon the process of decline is shown in Table 5.1.
Table 5.1 Internal and External Failure Factors

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5.4 Failure: Strategic Instigation or Constrained Relinquishing

This section addresses the nature of the business failure that the interviewees experienced and the extent to which it was a strategic choice deliberately made by the entrepreneur versus an uncontrollable culmination of decisions, actions and outcomes. Section 5.4 focuses on the second research question, which is: ‘To what extent was the closure a strategic business decision or was it beyond management’s control?’ Analysis of the data unearthed a range of categorisations based on the level of strategy engagement employed by the interviewees during the closure of the firms. There were four different levels of strategy distinguished and these will be explained further in the following paragraph. The strategic element of decisions appear to operate on a continuum which ranges from a highly strategic, well considered removal from the market all the way through to a cohort that have exhausted all other options before resigning the fate of their company to failure in the pure sense of the word.

From the analysis of the data the level of strategic action was found to operate on a continuum as shown in Figure 5.1. Firstly, pure failure not only is this non-strategic, the actions and reactions of the entrepreneur actually do further harm to their situation rather than alleviate it, thus their position in the leftmost section of the diagram. Secondly, non-strategic this level is populated by entrepreneurs that do not engage strategy nor do they exhibit strategic behaviour in the later stages of their firm’s life and the closure of the firm is unavoidable. Moderately strategic entrepreneurs engage in strategy in so much as they are decisive when the failure process takes hold. They are also quick to move on from the experience as they have the strategic foresight to have another project in the pipeline. Finally, highly strategic entrepreneurs are constantly scanning their environment for better opportunities to emerge and when they do they are fast acting and clinical in their approach to firm closure. They instantly walk away from their initial firm with no qualms if they come across a more attractive business proposition. A summary is presented in Table 5.2.
Six of the interviewees were highly strategic in their approach to dissolving their company. These interviewees closed down their firms to embark on a more
attractive venture and to some extent the company was utilised as a vehicle to create the circumstances for these new opportunities to materialise. Interviewee 3 regarded his life as a “training ground” for getting “a business off the ground” of which the brush with failure was another facet of training. Similarly Interviewee 24 described the process as being “part of a learning curve”, whilst Interviewee 19 saw it as a provider of “experience you just don’t get elsewhere”. More specifically, Interviewee 2 learned from his initial failed venture that he was “not going to be an employee again” and so began partnering with others in his network to create another new venture. Conversely Interviewee 19 missed having senior people to drive her talents and has since returned to a global corporation as an employee. Interviewees in this group were highly motivated, clinical and decisive about their business careers. This observation is made clear from the interviewees’ attitude to their closed businesses and the manner in which they describe them. For example, Interviewee 24 summarizes his initial jaunt into entrepreneurship as “just another phase…I got it out of my system and there’s the next thing to be done”. Similarly Interviewee 13 regarded the closure process as “very simple, very clean, just chop it off and get the courage to start again”. The main issue claiming firms from this category is good networking as four of the interviewees terminated their companies due to encountering individuals in their network, through the platform of their initial business, who facilitated the transition towards better opportunities. This group very much consists of people in the know who are network driven and people skills oriented. This was evidenced by their engagement of their networks to advance their entrepreneurial ventures. Interviewee 2 spoke of his ability to network, partner with new people and bring “likeminded souls” together.

There are three elements that were observed as important factors that influenced the closure of the firm for the highly strategic interviewees. Firstly, strategic choice, these entrepreneurs identified more attractive opportunities and as such were faced with the choice of continuing the existing firm or exploiting the new opportunities. Secondly, networking was an important behaviour exhibited by the highly strategic entrepreneurs, which exposed them to new possibilities. Finally, displayed opportunism, the individuals in the highly strategic category had strong
entrepreneurial intentions and as such was drawn to capitalising on new opportunities whilst having a clinical attitude towards their business ventures. These will be examined in greater detail in the remainder of this section.

5.4.1.1 Strategic Choice

Entrepreneurs regarded as being highly strategic in relation to firm closure had the opportunity to shutdown their firm by choice, as and how they wanted. The choice to close down their firm is always a strategic business decision to enable the individual the freedom to involve themselves in preferable business opportunities. Interviewees 24, 29 and 13 have referenced this in similar comments they made regarding the closure of their companies, these are epitomised by Interviewee 24, “It never really was in trouble... I moved on to a different field.” Also both Interviewees 2 and 3 explained they intended to merge their respective firms initially but when it became overly bureaucratic they simply closed them down and operated out of the firm they initially intended to merge with, so they were also intentional, designed closures.

Another commonality within this group of entrepreneurs is the fact that they utilise their first firm as a trial run in the business world, it is regarded as a short-term vehicle to opportunity rather than a long-term career choice. This concept of the highly strategic entrepreneurs first firm as a gateway firm is illustrated by the response given by Interviewee 24 when asked what was behind his decision to wind-down his firm he stated that “I probably am doing now what I always wanted to do and I suppose the other business was a way of getting from being a tradesman in a semi-state company to being in a company of your own to be where I am now so it was part of the learning curve” the same interviewee later says of his first firm “it was simply a transition into the next thing”. The exposure of being an owner/manager seems to have provided the entrepreneurs with learning curves and experiences that led to the empowerment of individuals to go after what they really want as Interviewee 2 explains the effect having his own business had on him “Once I got into it I felt I’m not going to be an
employee again I liked the idea of making my own decisions and guiding my own destiny so it changed me from wanting to be an owner rather than an employee”. The idea that highly strategic entrepreneurs utilised their initial firm as a gateway firm is further evidenced by the considered use of their network to further their entrepreneurial goals.

5.4.1.2 Networking

The prevalence of networking and the extent of its impact on interviewees in this group is clear: three of the five participants in this group decided to close their firm from the market in order to embark on a business venture with an individual or individuals which they had met through their initial business venture. Interviewee 2 sums up this skill for networking by voicing “one thing I would suggest that I’m quite good at is networking and partnering with people so I’d know likeminded souls like myself that would have done this kind of work so what I would have done is said why don’t you come in and I’ll bring you in together”. This behaviour of utilising and exhausting new contacts built up through the inception of the initial firm portrays the initial form as a ‘gateway company’, a rung on the entrepreneurial ladder that is essentially a vehicle which enables the entrepreneur to pursue their ultimate business goals.

5.4.1.3 Displayed Opportunism

The predominant characteristic shared by this group of entrepreneurs is the level of opportunism that they display. These individuals are constantly outwardly scanning the environment for prospects and ideas to get involved in, ideally ones that best allow each interviewee to utilise their abilities and expertise. The sheer determination displayed by the 5 Interviewees in this group and their ‘ideas rich, time poor’ nature also means that a clinical approach towards business ventures is exhibited and thus business decisions are made in a pragmatic detached method. This disposition is summed up by Interviewee 24 who concedes, “I suppose that’s me, there’s never been a time in my life when I didn’t have at least
three different things going on in my life work-wise so it’s just the creature I am...its just another phase, it’s just another one, you know, its another thing, I got it out of my system and there’s the next thing to be done, you know”. The great ease with which the interviewees move on and adapt to their situations is compounded by Interviewee 29: “The business wasn’t really ever in trouble as such...I closed it down myself intentionally...I wasn’t forced to close it down...it was a decision I made consciously myself.” This mentality was also adopted by Interviewee 3 who states that “the idea was actually to merge Sxxxxx then we decided for all sorts of reasons that we wouldn’t bother that we’d just shutdown Sxxxxx. So I started Sxxxxx but actually started working in Bxxxxxxx Ltd.”. The ease with which these interviewees closed down their firms but the passion they display when discussing entrepreneurship illustrates that they have not attached emotion to a particular firm or company but to the entrepreneurial process itself.

5.4.2 Moderately Strategic - Pragmatists

Moderately strategic entrepreneurs are another category that emerged from analysis of the interviews. These are the interviewees who embarked on a new venture for practical reasons but when the firm ceased to fulfil its pragmatism it was closed down. The closure is usually a strategic business decision provided it is done in a timely fashion after the expiration of the firm’s pragmatism. Of all four levels of strategic behaviour it is the antecedents behind why firms in this category were set-up that also determined the path by which they closed down. This due to the fact that the firms were set up to fulfil a purpose and when they no longer fulfilled the purpose or were required to fulfil the purpose they were closed down.

The most interesting aspect of this group of seven interviewees is that a high level of strategy existed from the firms’ inception in so much as the entire existence of the firm is strategic, the firm was incorporated solely to fulfil a particular objective rather than merely the exit being tactical. The strategising
manifested in the entrepreneurs’ decisive action. Rapid acceptance of the situation and quick action allowed the interviewees to operate in a highly pragmatic manner. In some cases the entire existence of the firm is a strategy, such as Interviewee 4 who set up a firm as a means of acquiring technology should the firm he worked for fail, however the firm did not fail and thus the company was closed down. Furthermore Interviewee 5 created a firm simply to avail of tax breaks and closed down the firm as and how she saw fit in order to pursue a different entrepreneurial venture.

The moderately strategic entrepreneurs were also identified as having three key factors that resulted in the closure of their firm. The first one, hedging ones bets, refers to the entrepreneurs’ ability to pinpoint exactly what they want from their career and the cautious manner with which they pursue it. Secondly, bureaucracy and a desire to comply with the law was another instigator of business start-up, the cause of closure came when the entrepreneur no longer required the formal structures of a company to fulfil their business goals. And finally a desire to fill an expected gap in the market, which ultimately failed to materialise was the driving force behind some moderately strategic interviewees business ventures.

5.4.2.1 Hedging Ones Bets

All seven of the interviewees in this group could be classified as cautious rather than exhibiting the risk-taking nature often synonymous with entrepreneurs, they are more considered in their decision-making than the highly strategic group and have a less vacillating nature. The individuals in this group are highly prepared and are very certain of what they want from their careers. An indicative example of this was given by Interviewee 4 this interviewee set up a new company when the firm he was director of encountered some problems that threatened the existence of the firm, thus he explains the spawning of the new company, “the idea for setting up Gxxxxx it was to provide a vehicle with which to take some of the technology...to acquire some of the technology from Cxxxxx-Wxxxxx Ltd. Should this doomsday scenario transpire...the reason for it not succeeding
was the reason it was set-up for originally didn’t transpire to a reality…I suppose to an extent I was hedging my bets and say ya we are going to try and do that but I’m also going to talk to them about the possibility that that doesn’t happen and if we cant do that that there’s a possibility of licensing or acquiring the technology from Cxxxxx-Wxxxxxxd”.

Furthermore Interviewee 13 highlighted his forward strategic nature by expressing that “it was a firm I only wanted to be involved with for a 10 year period and then ideally be bought out”.

5.4.2.2. Bureaucracy

Compliance with the law was the motive behind two of the six interviewees in the moderately strategic group commencing their business, this factor being the primary reason for starting a business highlights both the practical and earnest nature of the interviewees and also displays the unemotional side to this group of interviewees with regards to business matters. The red tape that influenced Interviewee 5’s decision to formalise her consultancy role (which consisted of freelance fixed term contracts) into a business structure was described as follows after she was questioned as to her reasons for starting a company, “Tax reasons…I just wanted some way to I suppose minimize my tax returns and I got advice that this was the way to do it set up a limited company whether or not that was right or wrong I don’t know and then I was in that game for about two to three years and I used FED, Foreign Earnings Deduction because I was out of the country quite a bit so the only reason I set it up was the advice I got that it was the best way to operate what I was doing in a tax complying and efficient way”.

Bureaucratic constraints also led to the inception of Interviewee 30’s firm in what was described by the interviewee as “a consortium of companies that wanted to work together…we set up the company so that there would be a brand to tender through”. The interviewee and the co-directors of the new firm were
already involved on a full-time basis in other respective firms but on seeing an opportunity to combine each firms complimentary services under one auspice’s because it was a more economical method of organising the arrangement than a joint venture would be. Once the two contracts, which the company was created for, were not successful the firm was wound down. It failed to achieve what it was set-up to achieve and given the oligopoly that existed in the market there was no other customers to approach with this service offering. However, it did not go unnoticed by the interviewee that even if the tenders had been successful there were some major flaws in the firm structure as it was noted in the interview that “there was nobody in charge and it was never going to go anywhere even if we did win some of the tenders because it wasn’t a single company and I don’t think I’d ever do that again”. Interviewee 13 also found bureaucratic constraints an obstacle and admitted that he felt satisfaction when closing down his firm because “there was a lot more tape in running multiple entities and it was easier to simplify the structure”.

5.4.2.3 Gap in the market

Both Interviewee 16 and 23 had very similar experiences both saw a gap in the market and both got positive feedback from initial market probing on their intended offerings however when it came down to it neither materialised enough sales to keep the firms afloat. This led to each firm being closed down and the product’s which spawned the beginnings of the companies were subsumed into the directors sister companies and are still being manufactured today. The ease with which the company was abandoned, was explained by Interviewee 23, who declared, “I wasn’t emotionally attached to it…I was very pragmatic about the whole thing…the books don’t lie, it wasn’t making a profit so I took a pretty as I say pragmatic approach and then decided that it wasn’t going to work”. Interviewee 16 mirrored this sentiment when explaining their decision to remove their firm from the market by stating, “We closed it down because we just decided that we weren’t going to get unique clients, they were always going to be on the back of IT Fxxxx clients”.

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The fact that both product offerings are still being produced and sold through a different channels is important to note and illustrates that the mode of bringing these products to the market was mismatched rather than the products not fulfilling consumers desires. The pragmatism of the entrepreneurs is also evident as the lack of sales was acknowledged early on and once steps to remedy this issue were unsuccessful other measures were taken in a timely fashion to shutdown the company and continue the products as complimentary goods rather than a core product.

A gap in the market was also spotted by Interviewee 10 who established an independent company on the back of the firm with which he worked for requiring a new electronic banking infrastructure for their chain of outlets. The niche nature of the business coupled with the interviewees disinterest in becoming a long term company director led to the dissolution of the company once its objective had been achieved, according to the interviewee it was recognised from the beginning that “they would be our only consumer” by means of a further explanation the Interviewee declares the following, “the reason that we wound up the company was the project had been attained…and there was no further need for the actual company to exist at that stage…it didn’t have life beyond that so therefore we wound it up and we went back to our ordinary jobs…the actual natural work cycle of the company had actually come to an end…it was just for one specific purpose in mind”.

This interviewee also declares the relief experienced when the firm was closed down this is indicative of the lack of emotional attachment to the firm which all interviewees in this group portray. The decisive reactions and early recognition and acceptance of the company’s short-lived future is also a theme which is noticeable throughout all moderately strategic entrepreneurs. The importance of a timely reaction is paramount when deciding if interviewees can be considered strategic or not as to prolong the life of the firm when it is no longer fulfilling its pragmatism is going to result in definite losses either financial, opportunity cost or both.
5.4.3 Non-Strategic - Experimentalists

Analysis of the findings found six entrepreneurs that are considered non-strategic in their actions with regards their firm closure. The non-strategic category is populated by entrepreneurs who closed their firm not as a strategic move, but because it was unavoidable, however they close it as and how they want. These interviewees see the whole process as speculative opportunity to try out an idea in a market that they have easy access to. Once they are satisfied that they have exploited the products/services capabilities they are accepting of the firms fate and wind down the firm in a timely fashion as and how they want. It is not a strategic closure, nor is it a forced closure but it is an inevitable occurrence, however this group do take a number of valuable key lessons with them from their experience more so than the more strategic entrepreneurs this is due to the steeper learning curve that they find themselves on.

There are two factors which influence the nature of the firm closure experienced by the non-strategic entrepreneurs. The first one is speculation, whereby the entrepreneurs saw their choice to begin a business venture as taking a chance or a gamble. This attitude depicts the interviewees’ uncertainty surrounding the succession of the firm and also shows the lack of strategy involved in the venture. Secondly a loss of momentum pertains to the entrepreneurs lack of commitment to rectifying problems the firm was experiencing, not only did the interviewees not remedy issues but they were also slow to make the decision to wind-down the firm, leading to a period of stagnation. These will be discussed further in the following sections.

5.4.3.1 Speculative Chance

An obvious issue that has led to a population of non-strategic entrepreneurs is the fact that they failed to develop a long-term plan for their firm and did not carry out sufficient research, this is recognised by the cohort of interviewees yet it is condoned with the knowledge that they were merely ‘taking a punt’ on a
business which presented itself to them rather than being a labour of love. Interviewee 17 describes the relative ease with which he got involved as a director in the firm in question, “I suppose it came along and it seemed like a reasonable idea with the technology rush and all that stuff and my brother was doing an MBA with...one of the directors...and like we were in the travel business, like we had a big travel company and it seemed like a good idea”. However when questioned on whether the option to set up a rival company and utilise existing contacts from the travel business instead of investing in this idea the response was quite telling, “no, no we just wanted something, like that would have been a full-time job and we didn’t have any interest in taking it on that sort of an enterprise, we were interested in making an investment really”.

Similarly, Interviewee 20, who was just 23 years old and a recent college graduate received great supports from a university incubation centre to aid and facilitate the transition into the business world recounts his venture, “It was a gamble and it didn’t work out, but it was interesting nevertheless and so that was a good thing”. Interviewee 28 was already a director in an IT firm when the decision was taken to begin an new firm as a joint venture in order to develop software for investment companies, the decision to launch this enterprise is framed in a style consistent with the two previous interviewees by when the interviewee states, “we were taking a punt”. The issues responsible for the closure of the three of these firms could easily have been on market forces with Interviewee 17 unable to convince a major Irish low-cost airline onboard, without which according to the interviewee, “the business terms didn’t hold water”.

Interviewee 20 found that the immature and fragmented mobile application market of the time meant having to deal with multiple carriers, with long leading times and restrictive branding, this placed many obstacles in the firms way. Also Interviewee 28 witnessed the market implode which is captured well by the following statement, “that bracket just disappeared really, that whole business, it evaporated”. Despite the market issue which each were faced with they are
quick to acknowledge their shortcomings in the process which goes some way to explaining the high level of learning that non-strategic interviewees say they have gained from the experience, this is exemplified by Interviewee 17, “the problems were problems that could have been foreseen with a bit more experience. we weren’t as focused and cautious as we should have been”.

5.4.3.2 Loss of Momentum

A loss of momentum occurs when a company starts well but unexpectedly experiences a period of stagnation that results in the unravelling of the firm. Otherwise promising firms experience a fatal blow that is beyond the interviewees control and little is done to overcome the issue. This was the case for Interview 25 whose firm developed social media systems similar to Facebook and Twitter but crucially before Facebook or Twitter came into being. Having partnered with an individual with complimentary skills, great industry experience and a network of important contacts the future of the firm seemed bright, however events transpired which altered the course that the firm was set on. The interviewee explains the turning point, “what really took the company down was my business partner, he got headhunted, he got offered a top role within their IC development in Ireland and he decided to take it he couldn’t pass it up…I was at a stage where I’d lost my business partner so I needed to decide what I was going to do…so really I just pretty much decided to put this on the back burner for a few months and I suppose all these things happen then 6 months becomes 12 months and 12 months become two years…and if you’ve missed the boat you’ve missed the boat”.

It is clear that the momentum of the firm became stagnant after the loss of the interviewees partner, which is understandable but it is the resigned acceptance of the situation that really sealed the company’s fate. The interviewee did attempt to rectify the situation and resuscitate the firm by seeking a new partner but admits, “I really couldn’t find the right people to come on board with me, the people I was talking with would have had very similar skill sets to myself whereas my
business partner had a bit more of a business background...going into business with someone wasn’t going to be something I would do lightly” (Interviewee 25).

The firm Interviewee 14 was a director of also experienced a loss of momentum. This interviewee’s situation is unique from all other interviewees, the interviewee’s involvement in the firm was as a member of the Board when a venture capital company that the interviewee worked for invested in the subsequently closed down firm. Thus the interviewee’s role involved overseeing developments within the company as opposed to having a hands-on role. Having secured Venture Capital funding the firm was in a promising position and Interviewee 14 details what first peaked the VC’s interest, “we became kind of very interested in the business in that as a technology business it had what we thought was quite substantial Intellectual Property”. The interviewee acknowledges that investing in early stage firms is “very high risk investing” thus the expectation of a high failure rate is prognosticated and regarded as an inevitable feature of the venture capital landscape, “you’re taking a portfolio view so, you know every ten investments two are going to be sold and sold for a very high price. You’ve got say two or three companies that probably will go out of business and then the rest, you know, they don’t go, they’re fine but they’re not...they don’t set anybody on fire”. As the funds cash reserves dissipated some difficult choices had to be made and as the firm in question would have required a lot more finance to become successful the decision was made to abandon the firm, as “it would have taken an amount more to finance” (Interviewee 14).

All interviewees in the ‘non-strategic’ group accepted the fate of their respective firms without putting up much of a fight. The bare minimum was done by way of reviving the firms and the whole process was viewed as little more than an experiment that didn’t work out yet all interviewees who regarded the whole process as ‘a punt’ learnt some valuable lessons from the experience and have no regrets on taking the chance.
5.4.4 Pure Failure - Purists

This group comprises of eleven of the thirty interviewees interviewed. These individuals encountered failure in a pure sense of the word, an experience in which their firm closure is beyond their ability to halt. These closures are not strategic, in most cases closure has been avoided and drawn out for as long as possible in the hopes of a turnaround, yet turnaround is never an option for these firms as there are fundamental flaws embedded within the foundations of the companies that contribute both to their decline and their inability to reign it in. It is these same deficits that hampered the firm’s ability to devise a strategic exit and instead had closure foisted upon them as the only issues contribute to the lack of implementation of an exit strategy are explored in the following section.

The factors that impinged on the firm’s ability to employ strategic behaviour when making decisions regarding the firm and its subsequent failure are depicted in Table 5.3.

Table 5.3 Factors Influencing the Lack of Strategic Engagement

<table>
<thead>
<tr>
<th>Factors Influencing the Lack of Strategic Engagement</th>
<th>Interviewee</th>
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<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Financial Distress</td>
<td>✓</td>
</tr>
<tr>
<td>Emotional Investment</td>
<td>✓</td>
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<tr>
<td>Internal Disputes</td>
<td>✓</td>
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<tr>
<td>Environmental Context</td>
<td>✓</td>
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<tr>
<td>Engaged in Contracting</td>
<td>✓</td>
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</tbody>
</table>
5.4.4.1 Financial Distress

Financial distress is cited by eight out of the ten interviewees in this section as an issue that contributed to the demise of their firms. It was recognised amongst the interviewees that start-up capital is required to set-up a new firm and also that it takes time for a firm to establish itself before it starts to break even. Interviewee 1 best portrayed the general mindset of the group best, “it wasn’t generating enough income, it lost money from day 1. We accepted that there was going to have to be a level of investment to get it to a certain stage”.

These individuals were aware of the costs associated with starting a new firm yet still experienced varying degrees of difficulty with regards to financial management. Interviewee 1 succeeded the above statement by conceding, “I guess after 2 years I just went right, thats enough this isnt going to work” and proceeded into voluntary liquidation. This contrasts with the experience of Interviewee 7 who had employees “calling up to the house looking for money” for expenses and salaries, money which basically did not exist and so being backed into a tight corner allowed less room for strategic maneuver and resulted in the firm closing with the interviewee €100,000 out of pocket and the Irish Revenue losing €20,000. Similarly Interviewee 9 had little opportunity to engage an exit strategy as he was forced into liquidation due to the firms weak financial position, he stated, “we had basically run out of cash...I was basically dragged through all sorts of High Courts and on the verge of being bankrupted by the age of 22...the company was put into liquidation, we didnt have any control over that process”.

Others interviewees took a different perspective to their firms financial difficulties and this position is depicted by Interviewee 8 who expressed disappointment “not because it was a failure...but disappointment because you knew had you got the money it would have been a success”, so where other interviewees in the cohort would welcome the opportunity to rescue their initial financial investment this interviewee mainly regrets not having more funding
available to see the firm to success however with the wisdom of hindsight he did
recognise that, “obviously you didn’t do everything right or you would have had
the money”. Interviewee 12 also felt his company had the potential for success as
it scaled quickly and attained bulk orders however the company could not
maintain function due to lack of capital for staff and operations.

Yet more interviewees are more self depreicating and see the financial ailings of
their venture as a reflection of their abilities as directors as Interviewee 18
admits, “in retrospect I think we were kind of in denial and we didn’t deal with
the important stuff like proper cash flow properly”. Similarly Interviewee 21 felt
the reason his new enterprise “lost a fortune” was due to an escalation of greed
between his fellow co-directors which led to him feeling misled and embarrased
by the entire venture. Interviewee 22 also felt misled by the software house
tasked to realise his vision as they cost, “a lot of money, a lot of time and didnt
deliver what I was looking for” he continues by saying that the “IT sector tend to
talk in smoke and mirrors”.

So there is a dual perspective taken on this issue with the majority declaring a
retrospective regret that the firm was not closed down sooner to curtail added
stress and financial loss whilst a lesser number rue their inability to source
additional funds to plough back into the firm in order to give it another chance at
success. Table 5.4 contains a summation of the key references to financial
distress extracted from the interview transcripts.
Table 5.4 Financial Distress

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Financial Distress</th>
<th>Nuances</th>
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<tbody>
<tr>
<td>1</td>
<td>&quot;the main issue was that it wasn’t generating enough income it lost money from day 1 we accepted that there was going to have to be a level of investment to get it to a certain stage but I guess after 2 years I just went right thats enough this isn’t going to work and I mean its probably the hardest decision in any business when it comes to pulling the plug...we needed to put in more money maybe 30 or 40 grand and I just sat down with my partner and said pull the plug thats it, no it was easy enough to wind it up, we went into voluntary liquidation, we had a liquidator bought in and he wrapped it up in the course of a few months”</td>
<td>* Firm was not generating enough income</td>
</tr>
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<td>7</td>
<td>“people were calling up to the house and looking for money and I mean employees, you know, we had to pay for stuff and employees were coming up looking for expenses and looking for salaries and they were more focused on getting their money than doing their job”</td>
<td>* Firms finances affected the Interviewee’s personal life</td>
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<td></td>
<td>“Then the real reason for failing also finance tightened up and the finance leases were no longer available and you can’t get them today very easily…and the leasing house started to look for personal guarantees and that really… when finance tightens up like that clients don’t want to sign leases and if guys don’t want to sign leases they can’t buy the product… the Revenue lost about 20,000 and I lost over 100,000.”</td>
<td>* Inability to get finance leases</td>
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<td>8</td>
<td>“Disappointment… not because it was a failure … but disappointment because you knew had you got the money it would have been a success, you know, sometimes people try things and then I suppose realise well that was a crock … And it was the disappointment of knowing that you were doing things right. Obviously you didn’t do everything right or you would have had the money”</td>
<td>* Inability to obtain financial investment</td>
</tr>
<tr>
<td>9</td>
<td>“we had basically run out of cash and I had to put the company in liquidation so basically that was one of the worst and yet when I look back one of the best experiences of my life because I learned how to raise cash, I learned how to spend cash and I learned how to close a business down which, you know, I was basically dragged through all sorts of High Courts and on the verge of being bankrupted by the age of 22…the company was put into liquidation, we didn’t have any control over that process</td>
<td>* Firm was put into liquidation</td>
</tr>
<tr>
<td>12</td>
<td>“basically what actually happened was, it folded because we didn’t have any employees and we were very much start-up forming was difficult really swift and fast, I mean I got to the point where I needed money so I had actually a contract so I just, I just focused on that then and my partner</td>
<td>* Firm ran out of money</td>
</tr>
</tbody>
</table>
5.4.4.2 Emotional Investment

Emotions and the emotional investment made by interviewees in the ‘pure failure’ group was referred to by this category of firm failure far more the highly strategic, moderately strategic and non-strategic groups of interviewees. This is indicative in the manner in which they resisted the closure of their firm’s for as long as possible and it is also apparent by the way in which they refer to the firm, Interviewee 8 described his firm as being “like someone...like a child”. The firm is viewed as an extension of the interviewee and thus if the venture fails it is not merely a lost business opportunity but a reflection on them as a person this in turn leads to individuals having a strategically obscured view of the firm which ultimately results in interviewees taking action to preserve the existence of the company beyond its natural lifespan. Eight of the eleven interviewees in the group cited emotional investment as a negative factor that impacted the exit of their firm by prolonging the inevitable. Whilst Interviewee 8’s attitude of humanising the firm is on the more extreme vista two other interviewee’s emotional attachment’s to their respective firms have also been deeply embedded, as the fate of the firm is still remembered as an event which is reflective of them as individuals.

Interviewee 21 admits to being “embarrassed” discussing the failure during the interview, and likened the interviewers role to that of “a priest trying to get me to confess my sins” whilst Interviewee 1 cites “vanity” and “ego” as the reason for not exiting the market 6 months earlier when time and financial investment could have been saved. The emotional response of Interviewee 12’s co-director varies from most as instead of striving to keep the company open he wanted out completely and would not contemplate any other option which may have given the product another opportunity, this is in direct contrast with the behaviour of Interviewee 18’s co-director yet common to both is the stubborn, strong-will and an inability to approach the situation from a clear, business perspective, unclouded by emotion. The strength of influence which emotional investments can have over an individuals desire to see their projects through is best summated by Interviewee 22 who states, “I was prepared to explore other avenues, as I say
when you’ve been burnt for a lot of money and time and interest and emotion and everything else you feel very let down and you are slow to sort of repeat that experience but the emotions rather than sort of shall we say business decisions take over, but ultimately a decision had to be taken do you continue or do you leave it...But I believed in the idea so much that I felt it was worth sort of pursuing”.

The emotional input in a new firm is likely to be strong for any entrepreneur as beginning a new venture can cost money, time and in some cases when it goes wrong ones reputation. Thus the costs are high and the desire to be successful was imperative for all the interviewees in the ‘pure failure’ group, however in many cases the emotional overtones tainted their judgements and led to poor decision making and thus contributed to interviewees in this category not engaging strategy when their business was failing. Table 5.5 shows a selection of the key references made by the interviewees on the topic of emotion and emotional investment.
Table 5.5 Emotional Investment

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Emotional Investment</th>
<th>Nuances</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>“its probably the hardest decision in any business when it comes to pulling the plug I mean will we make 10 people unemployed...more importantly to us we were admitting we were failed. Realistically we should have pulled the plug about 6 months before that but vanity, ego kept it going”</td>
<td>* Disliked causing unemployment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* Vanity/Ego influenced decision</td>
</tr>
<tr>
<td>7</td>
<td>“there was more emotion, there was more pressure (towards the end of the life of the firm)”</td>
<td>* Destructive emotion (contracting)</td>
</tr>
<tr>
<td>8</td>
<td>“Because it’s like someone, like a child, you’re building this business, you’re watching it grow, you’re seeing it develop, you knew there’s a problem there, you knew the reality of situation, without money it’s nothing to send out a capital intensive network and it was a difficult, difficult time.”</td>
<td>* Likens firm to a child</td>
</tr>
<tr>
<td>12</td>
<td>“my partner decided that he wanted out completely and I kind of knew that there was no, he was too, he become too emotional about the whole thing in the sense that and that he just wanted rid of the thing and move on really and at that point then that this was kind of over and that there was no slow burn into something else or to kind of model the product into something that might have gotten another opportunity with”</td>
<td>* Partner got over-emotional and wanted to get out</td>
</tr>
<tr>
<td>18</td>
<td>“part of the problem was also with Bxxxxx (co-director) he was emotional, it’s an investment or something you’re creating he was very reluctant to give it up but you have to get on with it.”</td>
<td>* Partner got over-emotional and wanted to pursue it at all costs</td>
</tr>
<tr>
<td>21</td>
<td>“I’m embarrassed talking to you…(Laughter) You’re a like a priest trying to get me to confess my sins. (laughter) It only happened once and it ain’t going to happen again.”</td>
<td>* Interviewee felt failure reflected on him as a person</td>
</tr>
<tr>
<td>22</td>
<td>“I was prepared to explore other avenues, as I say when you’ve been burnt for a lot of money and time and interest and emotion and everything else you feel very let down and you are slow to sort of repeat that experience but the emotions rather than sort of shall we say business decisions take over, but ultimately a decision had to be taken do you continue or do you leave it…But I believed in the idea so much that I felt it was worth sort of pursuing whether until I did that.”</td>
<td>* Reluctance to abandon project despite repeated failure</td>
</tr>
</tbody>
</table>
5.4.4.3 Internal Disputes

An inability to garner a shared vision amongst stakeholders for the progression of the new firms’ was cited by seven of the eleven interviewees. This led to escalated issues and a snowballing effect as time evolved, it was felt that internal disputes were a key factor in the demise of their respective firm’s. As previously discussed the level of emotional involvement and attachment felt by interviewees with regard to each of their business venture in turn lends itself to impassioned opinions and in some cases tunnel vision. The following statement highlights this notion succinctly, “I didn’t want to continue dealing with them right, we didn’t share the same set of values or indeed philosophies so I decided to end it and that was the long and the short of it” (Interviewee 22). Similarly Interviewee 9’s mission for their company was misaligned with a new stakeholder that came onboard, a Venture Capitalist firm. In fact the interviewee felt misled by the VC firm as they signed a term sheet and took the cash and only afterwards became aware of the fact that it gave the VC firm full control and proceeding this the Interviewee declared that, “Everything we tried was basically knocked down. The company was put into liquidation; we didn’t have any control over that process. So it was a hard time”.

A more straight-forward internal dispute was experienced by Interviewee 21 who embarked on a business venture with an individual about which the interviewee knew very little about, this led to issues down the line when the interviewee got to know the partner better and ultimately described the Interviewee as “a total cobbler”. So there was a feeling amongst these four interviewees (Interviewee 22, 9, 21 and 27) that they were misled in some way by one of their fellow stakeholders, this led to feelings of resentment to build up and relations to breakdown which had a knock-on negative effect on the health of the firms’ in question.

Both Interviewee 7 and 12 both experienced accelerated internal frictions when they began contract work in other firms as a means of accessing cash both to live
off and reinvest in their firms’. Their level of emotional attachment to their firms’ prompted them to leave their companies under the misguided view that they were potentially rescuing them from failure when they are in fact abandoning them at their most vulnerable. This ill-conceived plan resulted in frictions between the individuals gone contracting and the partners and employees left behind continuing to attempt to revive the company. When Interviewee 7 left to begin contracting in Spain it proved disastrous for the company that is illustrated in the following quote, “the sales guy didn’t deliver the business, the business wasn’t managed properly, the guys weren’t working, the appointments weren’t … so it kind of caught me badly… one of the techie guys I employed was a waste of space and when I let him go he was driving with no insurance, no tax, he was off the road, he was still driving. There were days when I was expecting him to be in one place and I’d drive up to his house and find he was still there in his bed”.

Similarly cracks began to develop for Interviewee 12 and his partner when the interviewee decided it was necessary to go contracting as is summarised by the following statement, “the relationship kind of soured, like he didn’t want me to go contracting”. On the less extreme end of the scale Interviewee 8 discovered that false allegations and insinuations were being circulated by one or two members of staff which were totally unfounded however the Interviewee did not learn of this until after the demise of the firm so the true impact of this internal grievance is difficult to ascertain.

So internal disputes were a strong factor in the demise of numerous firms in the ‘pure failure’ cohort. The build up of emotion and desire for success, coupled with strong personalities each vying to realise their own visions and goals can led to strained relationships at the best of times but when cracks begin to appear, the culmination of feelings can lead to irreparable damage that results in the dissolution of the firm. The main references to internal disputes made by the entrepreneurs are summarised in Table 5.6.
<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Internal Disputes</th>
<th>Nuances</th>
</tr>
</thead>
</table>
| 7           | “I went to Spain sort of for about 3 weeks of the month... and left the other sales guy and the four people there... but the sales guy didn’t deliver the business, the business wasn’t managed properly, the guys weren’t working, the appointments weren’t ... so it kind of caught me badly... one of the techie guys I employed was a waste of space and when I let him go he was driving with no insurance, no tax, he was off the road, he was still driving. There were days when I was expecting him to be in one place and I’d drive up to his house and find he was still there in his bed... the sales guy was going through a nasty separation from his wife and six children and he was always under financial pressure. He was a good guy but his other external pressures prevented him from really concentrating on the job at hand.” “the telesales guy I gave him 1K ... but it was a 1K more than he deserved in truth but he started threatening me with all stuff like I owed him holidays and all this bullshit, you know.” | * Employees lying and being negligent  
* Salesman extorting money when firm ended |
| 8           | “Afterwards I discovered, you know, certain things were insinuated by one or two staff members which were totally untrue like, you know, that they were maybe being misled, one or two only.” | * Rumours circulating through staff members by two employees |
| 9           | Respondent got involved with a VC company and “signed a term sheet then when we took the cash that we really should have read because it gave them full control, we were absolutely wasting our time at this point. I now read everything... Everything we tried was basically knocked down. The company was put into liquidation; we didn’t have any control over that process. So it was a hard time.” | * Difficulty agreeing with VC firm |
| 12          | “By January we had our first potential customer and literally within a month of that we were beginning to unravel and by the end of March we were potentially that was the end of it. Things kind of went and the relationship kind of soured like he (partner) didn’t want me to go contracting and that kind of thing and I had to get money together and so by the end of March we were potentially in wind down mode, okay legally we were still an entity but as far as I was concerned we weren’t going to be in a position to bring the company in any way forward anyway” | * Relationship with business partner soured |
| 21          | “This guy was a total cobbler... how the two of us are both experienced, both had successful businesses, how we let our guards down and got caught with this guy I don’t know.” | * Felt misled by partner |
| 22          | “I decided well okay there’s no way I’m going to continue dealing with these people... so I decided at that point in time okay I’m going to dissolve the company... I didn’t want to continue dealing with them right, we didn’t share the same set of values or indeed philosophies so I decided to end it and that was the long and the short of it.” | * Relationship with business partners disintegrated |
| 27          | “My partner had different goals and ideas” | * Partner was pulling in opposite direction |
5.4.4.4 Environmental Influencers

The Information and Communication Technology (ICT) sector at the period of time in question was a rapidly growing industry and Ireland was fast becoming an important player as it was seen as a gateway to Europe yet also had strong economic and cultural ties to the United States. This coupled with a highly educated, young and hard-working population helped the country secure its position as a knowledge economy and this in turn spurred a new generation of entrepreneurs to join the crest of the wave of innovation. However the explosion of growth in the market was not without its drawbacks and these had a profound affect on five of the ten entrepreneurs in the ‘pure failure’ category.

An issue that Interviewee 7 feels was detrimental to his business was poor mobile network infrastructure. The interviewee’s company depended on a strong mobile network signal for the firm to thrive however Ireland’s infrastructure had not progressed as fast as the need dictated and so the Interviewee places a core amount of blame for the failing of the firm on the poor mobile network service.

Another issue raised by Interviewee 8 and 9 was market forces and their ability to dictate the level of investment attained by the entrepreneurs. Given the rapid growing ICT industry and the intense jostling for position mixed with the uncertainty of the markets progression led to unorthodox investment decisions. Firstly Interviewee 8’s investor pulled out in the middle of the second tranche of funding by simply declaring, “it’s not a good day to be investing in telecoms”. This was in response to a heavily funded national company, also a telecoms company, was going into liquidation, which led to fear amongst the investors and the entrepreneur was simply told “nobody wants to invest in this segment at this time”, thus without funding the entrepreneur was unable to get the company of the ground. Conversely the experience of software publishing company director Interviewee 9 was the polar opposite the following interview excerpt highlights the situation perfectly, “I basically was having a pint with this guy in a pub and I said I’ve got a cool idea for a business. He said I’ve got some friends who have
lots of cash why don’t you come in and pitch it to them. And I said well what do you mean by pitch it? And he goes well have you got a plan? And I said I can make a plan and I did it, I basically went online, I think it’s bizplus.com I think it is and I downloaded an application that can actually help you to produce a business plan so you know what you’re going to do in the first year and you make that up, year 2, you just make that up, because there’s no way you can say what I’m going to do in year 1, 2, 3, 4 and 5 unless you have a crystal ball, you know. So I did everything, it looked fantastic. We don’t compete with anybody, this is a unique thing and, you know, I raised the cash based on that but it was a business plan that was thrown in the bin as soon as the cash came in, in fact I still have the business plan and I look at it and laugh because it’s just to show that investors back then they had way too much cash in 2000/2001 and they didn’t actually give a damn if they lost it or not”.

Another factor that impacted the environmental setting within which the firm operated was regulatory changes. As the previously mentioned the unpredictable development of the ICT market led to some government legislative action to be taken to fairness and equality within the market. These changes had a profound effect on Interviewee 15. Regulatory authorities made the decision to change the structure of the Irish electricity market from a bilateral market to a gross pool market. This invoked the interviewee to shut down the firm, as it was set-up due to the clear advantage that could be gained in the market due to the contacts the interviewee had built up over time, once the gross pool market came into being the competitive advantage the interviewees firm had over others in the market place could not be invoked thus resulting in the closure of the firm.

The final environmental factor that was encountered by interviewees in the ‘pure failure’ category was Irish culture and our way of doing business. For one interviewee the inability to adequately assess the cultural norms of Ireland and the way the Irish do business led to the dissolution of their firm. Interviewee 18 returned from the States and set up a company in Ireland based on an idea gleamed when abroad in the US however the reaction encountered this side of
the Atlantic was very different than expected as the interviewee recognised in the following statement, “American people would be going nuts for something like that and one of the biggest surprises for me was that in Ireland people just didn’t…the Irish people didn’t believe in them either” (Interviewee 18).

Shifts in the environmental setting within which the firms were operating or a misaligning of firms and their environment had a definite impact on the survival of firms in this category. Whether or not such shifts could be planned ahead for and potential solutions considered before embarking on a business venture is debatable however in the eyes of the interviewees interviewed the contextual issues encountered were unexpected and thus argue that they could not be foreseen. Once again Table 5.7 displays the key references to environmental context made by entrepreneurs in the pure failure category.
### Table 5.7 Environmental Influencers

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Environmental Influencers</th>
<th>Nuances</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>“Companies (customers) were dissatisfied with the quality because they were ringing in on mobile phones and the mobile network was weak...it was nothing to do with the production that was being played, it was crystal clear in the building, and if you dialled over a landline it was perfect but if someone rang on a mobile phone it cut off and cut on as the signal cut off and cut on and people didn’t understand that was nothing to do with us it was just the nature of the mobile network.”</td>
<td>* Poor network infrastructure</td>
</tr>
<tr>
<td>8</td>
<td>“Nobody wants to invest in this segment at this time”</td>
<td>* Market investment disintegration due to closure of one big industry player</td>
</tr>
<tr>
<td></td>
<td>A potential investor declared, ‘It’s not a good day to be investing in telecom’</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>“I basically was having a pint with this guy in a pub and I said I’ve got a cool idea for a business. He said I’ve got some friends who have lots of cash why don’t you come in and pitch it to them. And I said well what do you mean by pitch it? And he goes well have you got a plan? And I said I can make a plan and I did it, I basically went online, I think it’s bizplus.com I think it is and I downloaded an application that can actually help you to produce a business plan so you know what you’re going to do in the first year and you make that up, year 2, you just make that up, because there’s no way you can say what I’m going to do in year 1, 2, 3, 4 and 5 unless you have a crystal ball, you know. So I did everything, it looked fantastic. We don’t compete with anybody, this is a unique thing and, you know, I raised the cash based on that but it was a business plan that was thrown in the bin as soon as the cash came in, in fact I still have the business plan and I look at it and laugh because it’s just to show that investors back then they had way too much cash in 2000/2001 and they didn’t actually give a damn if they lost it or not”</td>
<td>* Excessive finance in the economy lead to foolish investments</td>
</tr>
<tr>
<td>15</td>
<td>“Regulatory authorities had announced that there would be a major change in the structure of the Irish electricity market, to move in fact from a bilateral market we’ll say balancing mechanism to one which is known actually as a gross pool and so therefore...so that actually...so we made that decision to shut it down.”</td>
<td>* Regulatory changes excessively impacted firm</td>
</tr>
<tr>
<td>18</td>
<td>“American people would be going nuts for something like that and one of the biggest surprises for me was that in Ireland people just didn’t...The Irish people didn’t believe in them either”</td>
<td>* Irish culture was not suited to firms service offerings</td>
</tr>
<tr>
<td>26</td>
<td>Ireland as a market is “very hard...a lot of taxes, a lot of expenses”</td>
<td>* Cost of doing business in Ireland was expensive</td>
</tr>
</tbody>
</table>
5.4.4.5 Engaged in Contracting

For two of the ten interviewees in the ‘pure failure’ group the desire to rescue their business from the brink of failure resulted in the individuals contracting their expertise to other companies in an attempt to gain financial remuneration that they could then reinvest in their already struggling business. Such a decision came with the obvious drawback of abandoning ones company whilst pacifying oneself with the misguided opinion that one is in fact rescuing said company. This is precisely the predicament that Interviewee 7 and 12 found themselves in and this is exemplified in the quotes contained in the table below. Table 5.8 shows the two statements pertaining to contracting that were made by interviewees.

Table 5.8 Engaged in Contracting

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Engaged in Contracting</th>
<th>Nuances</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>“As the business became tighter I got involved in another project in Spain which meant that I went to Spain sort of for about 3 weeks of the month…Spain didn’t work either so I came. So I came home from Spain and at that stage the company was stressed.”</td>
<td>Interviewee abandoned firm in favour of contracting in Spain</td>
</tr>
<tr>
<td>12</td>
<td>“I mean you are talking within the time we started, that time of initially questioning was say five months and then things unravelled very quickly then, I suppose within two weeks time I went to contracting.”</td>
<td>Went contracting when firm unravelled</td>
</tr>
</tbody>
</table>

Whilst the choice to leave their struggling businesses and take up a new position in another company had a definitive negative impact on the firm they were desperately trying to save the move also acted as a bridge for the interviewee. It was a method of loosening the reigns that the business had constricted the interviewee in and it also allowed the interviewee to relinquish their control over the firm and distance themselves from its impending failure whilst also affording them the opportunity to embark on a new avenue and begin again without the guilt of officially giving up on their initial business venture.
Whether the closure was a strategic business decision or whether it was forced upon the entrepreneurs by occurrences that were beyond their control definitely varies between firms and these firms can be delineated into four distinct categories which best portrays the level and intensity of the strategic engagement employed. The varying elements that firms displayed which contributed to their categorisation have also been explored with respect to the Interviewees.

5.5 Summary of Strategic Instigation or Constrained Relinquishing

Analysis of the data found that strategic engaged appears to operate on a continuum. This ranges from pure failure in which the entrepreneur not only is non-strategic but the actions and reactions of the entrepreneur actually do further harm to the firms situation. Secondly, non-strategic entrepreneurs, these individuals do not exhibit strategic behaviour in the later stages of the firm’s life and the closure of the firm is unavoidable. Third is moderately strategic entrepreneurs, interviewees in this category are decisive when the failure process takes hold and have the strategic foresight to have another project in the pipeline. Finally highly strategic entrepreneurs are constantly scanning their environment for better opportunities and when they do they exploit them in a decisive clinical manner. A summary of the key findings for the research question - “To what extent was the closure a strategic business decision or was it beyond management’s control?” are displayed below in Table 5.9.
Table 5.9 Strategic Closure versus Uncontrollable Exit

<table>
<thead>
<tr>
<th>Definition</th>
<th>Strategic v Uncontrollable Exit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Highly Strategic</strong></td>
<td>• Strategic Choice</td>
</tr>
<tr>
<td>Entrepreneurs who closed down their firms to embark on a more attractive venture and utilised their initial company as a vehicle to create the circumstances for these new opportunities to materialise.</td>
<td>• Networking</td>
</tr>
<tr>
<td>• Displayed Opportunism</td>
<td></td>
</tr>
<tr>
<td><strong>Moderately Strategic</strong></td>
<td>• Hedging Ones Bets</td>
</tr>
<tr>
<td>Entrepreneurs who embarked on a new venture for practical reasons but when the firm ceased to fulfil its pragmatism it was closed down.</td>
<td>• Bureaucracy</td>
</tr>
<tr>
<td>• Gap in the Market</td>
<td></td>
</tr>
<tr>
<td><strong>Non-Strategic</strong></td>
<td>• Speculative Chance</td>
</tr>
<tr>
<td>Entrepreneurs who closed their firm not as a strategic move, but because it was unavoidable, however they close it as and how they want.</td>
<td>• Loss of Momentum</td>
</tr>
<tr>
<td>• Speculative Chance</td>
<td></td>
</tr>
<tr>
<td><strong>Pure Failure</strong></td>
<td>• Financial Distress</td>
</tr>
<tr>
<td>Entrepreneurs in this category were not strategic and their firm closure was beyond their ability to halt. In most cases the closure has been drawn out for as long as possible.</td>
<td>• Emotional Investment</td>
</tr>
<tr>
<td>• Internal Disputes</td>
<td>• Environmental Context</td>
</tr>
<tr>
<td>• Engaged in Contracting</td>
<td></td>
</tr>
</tbody>
</table>

5.6 Conclusions

This chapter presented the findings of the first two research questions. Firstly, the internal and external factors that impacted upon the process of decline were explored, whilst the latter part of the chapter examined whether the closure was the result of a strategic business decision or whether it is beyond entrepreneur’s control. The findings show that internal factors were more prominent than external factors on the process of decline and this finding aligns with current research (Malone, 2004; Pitts, 2008; Ooghe and De Prijcker, 2008; Wiesenfeld et al., 2008). The exploration of the findings pertaining to the existence of strategy, during the process of business failure, resulted in four different categories of behaviours emerging. These categories were regarded as existing on a continuum.
whereby entrepreneurs were highly strategic, moderately strategic, non-strategic or pure failure. All of these findings will be discussed further along with the findings presented in the proceeding chapter in Chapter Seven.
CHAPTER 6: MANAGERIAL ACTIONS AND AFFECT OF FAILURE

6.1 Introduction

This chapter begins with an examination of the actions management take during the advancement of business decline. The latter half of the chapter looks at the effects experiencing business failure has on ones personal and professional life. This chapter explores the data pertaining to the final two research questions. As with the previous findings chapter it is structured firstly by research question and then by the NVivo analysis-coding framework.

6.2 Management’s Response Action

The onset of business failure resulted in a variety of actions from the entrepreneurs interviewed. The four main actions that emerged from an analysis of the data will be explored in this section of the chapter as a means of comprehensively answering the third research question which is: ‘What actions do management take during the advancement of business decline?’ The first action explored by the Interviewees was an attempt to raise finance in order to continue operations. Secondly, a marketing push was pursued to reinvigorate interest in the firms’ offerings and drive sales. For some entrepreneurs, an exploration of their network provided them with alternative career options and prompted them to abandon their initial ventures whilst others took decisive action when presented with the advancement of business decline. These actions will be further explored in the following section along with analysis of whether these actions progressed or alleviated the onset of closure.
6.2.1 Raising Finance

A strong attempt was made by seven entrepreneurs to attract financial investment into the firm. Five of the entrepreneurs began courting venture capital firms in an effort to secure funding whilst two interviewees pursued a more unorthodox route and went contracting to earn money, with the ultimate goal of reinvesting it in their initial venture. The general consensus amongst the interviewees towards VC’s was a negative one as they were regarded as unreasonable and controlling however the ease with which interviewees found attracting VC funding received a mixed response. These two methods as a means of fulfilling the action to raise finance will be discussed in this section.

6.2.1.1 Venture Capital Funding

The view amongst the interviewees towards the VC firms is a negative one and as such attempts to obtain VC funding was only done when other avenues such as bank loans and personal funding was exhausted. Despite the general negative opinion towards VC’s they were accessible during the period of time in question as Interviewee states that “there was a lot of VC companies around and they were putting a lot of money into various hairbrained dot.com companies of which we were one of them”. This interviewees approach to VC funding differed from his cohorts as he wished to utilise the VC investment as a means of reducing his own risk in the venture. The entrepreneur had another established business at that time, from which funds could be accessed to support this venture. However there was a reluctance to do so due to the uncertainty surrounding the viability of the new venture, a safer option was to involve a VC company and reduce the personal risk. Yet the main drawback of VC funding, which led most individuals negotiating VC funding to decline it, was the investment/ownership split offered by the VC’s. To many entrepreneurs it was seen as unreasonable, this was discussed by Interviewee 1, “the percentages of what they wanted for what they were willing to offer just didnt make sense to us, you know one of them wanted 80% of the company and he was talking about giving us 300 grand or something like that, we could put the 300,000 in ourselves which is what we did
Ultimately the percentages offered by the VC firm were rejected and the finance was sourced from the entrepreneurs existing company.

The perception of VC companies was largely negative and this also influenced their decision to decline investment as Interviewee 1 stated, “if we had substantial investment and it probably would have been a lot more pressure on us because the way it worked we had no investment so it was all our own money so the only people we had to give out to were ourselves and we didn’t have any unknown company in the UK giving out to us”. A negative VC experience was also discussed by Interviewee 9 who began their firm with VC investment, “The idea was that they would put in half of the cash and they would continue to support the business if they saw fit or basically they have complete control to say yes or no”. As the firm failed to close their deals in the expected length of time the VC firm failed to reinvest the other half of the required funding as explained by the interviewee in the proceeding excerpt, “we signed a term sheet then we took the cash, we really should have read it because it gave them full control, we were absolutely wasting our time at this point. I now read everything. And then the third option was that we would basically re-open the business under a different name, and do a deal with our creditors and that. Everything we tried was basically knocked down. The company was put into liquidation; we didn’t have any control over that process. So it was a hard time” (Interviewee 9).

A failed attempt to attract VC funding was also detailed by Interviewee 12, who further discussed the negative feeling that exists amongst entrepreneurs and VC firms. Whilst VC companies are a valid and tempting route to venture down to attain financial investment it usually requires giving up a controlling share of ones firm and results in a loss of power and earning potential, “we would have been actually architecturing the whole business plan with a view to making a presentation to a VC...so I suppose the answer is yes I started to look at the financial side of it all even all the way through just to kind of get a feeling but I mean VCs, to get a VC and that and to take capital funded type level it’s kind of difficult really...they take a massive amount and you have to become strong so
it’s a loss of income into your company…a VC will take 90 per cent of a company, they might just want 90 per cent of it you know...so you are gone at that stage, you lose control and there are more interested at looking when you've got your first set of customers” (Interviewee 12).

Attracting funding was foremost on Interviewee 14’s mind when the VC fund they were part off ran out of finance. The entrepreneur approached a German VC fund and retained a strong sales consultant in a bid to rescue the firm however when the German VC company ceased investment in the fledgling firm the entrepreneur explained that a sense of duty to creditors resulted in the prompt closure of the firm, “I think the thing that focuses every mind in small companies is the next payroll so without getting support from the existing investors there really was no potential to make the payroll...they (investors) came back very promptly to say they would not reinvest or not sort of follow-on with even some temporary financing of the business. And literally at that point it is, for the directors to call in a lawyer the following the morning and basically to cease trading and to seek or appoint a liquidator...So there’s just no option really, in that situation, you’ve got to make sure that the creditors are protected in so far as possible and the company should not incur any further costs” (Interviewee 14).

Interviewee 8 undertook a multifaceted approach; they attempted to make their firm more attractive to VC’s by partnering with their main rivals in the form of a joint venture. However the market conditions prevailed and despite an impressive revival strategy the firm failed to overcome the market forces, “I was evaluating a potential joint venture with the gentleman who was going to become the new CEO of Xxxxx Telecom...joining their network along with ours with a view to further fundraising and benefit that side of the business...I had approached venture capitalists....And they just came back and said no, just it’s the market, they don’t want ... nobody wants to invest into that segment at the time...I wanted it to get into the JV scenario, I worked on it, I had letters of intent exchanged with the new CEO of Xxxxx Telecom, the idea was that I’d be brought
on board with them to spearhead us up or not up with them but in the joint venture I’d spearhead it up and, you know, you were hoping that would happen ... but as time dragged on you came to the realisation that it wasn’t happening and that all avenues, all doors shut, you know, any potential aspect or any potential, say, person out there for raising funds from your list was going from 40 to 20 to 10 to 5 to 2 to 1, you know” (Interviewee 8).

As one would envisage venture capital firms are a real option for firms in the ICT industry however the entrepreneurs had a variation of experiences in their dealing with them. For Interviewee 1 the VC firm was eager to invest, Interviewee 14 obtained investment initially but then failed to obtain reinvestment and Interviewee 8 was completely unable to secure any VC investment despite willing to enter into a joint venture with their main rivals. However despite the disparity of experience all the entrepreneurs who had dealings with a VC firm have a negative opinion of them and so approaching a venture capital firm as an action by which to attain finance was not considered a fruitful exercise and did not positively impact the advancement of business decline.

6.2.1.2 Contracting

For the interviewees working in paid employment and beginning a business venture in ones free time was regarded as a means of alleviating some of the pressure of the new business; interviewees are able to sustain an income from their day job until the new firm got to a stage where it could provide the directors with a wage. However two entrepreneurs worked fulltime in their new venture and when the firm began to experience problems they went contracting in order to raise finance to reinvest in the firm. This unorthodox decision was borne out of desperation and in both cases contributed to the ultimate demise of the firm rather than support it in any form.
Interviewee 7 describes their actions as their firm encountered issues, “as the business became tighter I got involved in another project in Spain which meant that I went to Spain sort of for about 3 weeks of the month ... and left the other sales guy and the four people there, there should have been, you know, but the sales guy didn’t deliver the business, the business wasn’t managed properly, the guys weren’t working, the appointments weren’t ... so it kind of caught me badly. I mean the market is very small in Ireland too but we could have kept going, you know, except it got to a stage where I had to close down what ... Spain didn’t work either so I came. So I came home from Spain and at that stage the company was stressed”.

The choice to go contracting was an activity also undertaken by Interviewee 12 as the need for money led to both partners effectively abandoning the company in the short term but as time evolved they got involved in other projects and the firm was closed down, “It got to the point where I needed money so I had actually a contract so I just focused on that then and my partner went off and he got himself a job and he basically, he tried to bring our software on a bit more and one of the contacts that he made in Europe for our product, they said that he could actually help them to develop their own product, so when we folded he went to work for that other company”. However it was this choice to go contracting which further fragmented the health of the firm and broke down relations between the entrepreneur and his partner to an irreparable state, “it came to the point where I was getting emails from him (partner) and essentially he didn’t want me to be actually contracting and like I was going to be earning money and he wasn’t going to be and he wanted all of that stuff, all the possible things you could think of in terms of human relations what had happened I suppose really in terms of the kind of breakdown, people not talking, getting sour about situations, wanting to go the legal route even you know so the whole thing...it was just a headache for me at that stage, I just wanted rid of it and I would have closed it down the next day and moved on, I had no problem at that stage, so there was no problem, it was just a pain in the ass basically trying to close it down it cost you were dealing with the legal, you were dealing with taxation” (Interviewee 12).
It is clear that the decision to go contracting and essentially abandon the troubled firms was not a positive action for the entrepreneurs to take as a means of slowing the advancement of the process of failure. It was an action undertaken out of desperation and if anything it sped up the process of decline through leaving an out of control workforce without a leader and facilitating a breakdown in relations between business partners, as such it was a negative action to take.

6.2.2 Marketing Push

A marketing push was the chosen action for seven interviewees when the process of failure evolved as a means of reinvigorating sales and sustaining the life of the firm. Interviewees attempted to address the problems their firms were experiencing through targeted marketing campaigns, intensified online marketing, and exploring new potential markets to aim their products at.

In a bid to increase sales three interviewees increased their marketing through a targeted marketing approach as detailed by Interviewee 23, “we were advertising on the web and we had brochures with all the information so there were a few marketing activities on the go at the same time and we probably intensified some of the internet marketing, you know, to try and dig things up...but it didn’t work” (Interviewee 23). Whilst Interviewee 23 found this approach did not boost sales Interviewee 16’s less intense marketing approach was also unsuccessful however the Interviewee 16 also concedes that a stronger push would still have failed to yield the desired results “with Cxxxxxx Sxxxxxx we did something, we did try a bit of sales, a bit of marketing...in hindsight I’m thinking it probably wasn’t a bad thing, I’m not sure that trying and pouring a lot of money into marketing would have made much difference”.

Broadening the scope of ones business to new markets was an activity explored by two interviewees as a means of achieving a reasonable amount of growth to remain buoyant and overcome the restrictions placed on them by operating in a
small market such as Ireland. However neither of the entrepreneurs who explored the option of entering new markets did so successfully as discussed in the proceeding interview excerpt, “this man approached me...he was en route for his own business idea and he was heading off to Silicon Valley...he had the sort of the business and IT pedigree that I didn’t...And he expressed an interest in sort of designing the product, into the state I wanted it in and indeed offered to bring it to the market in the US, so...I decided to partner with him and two and a half, three years later I got a part of a product okay, but again not what I was looking for” (Interviewee 22). Also Interviewee 15 acknowledged the great potential that existed for expanding his firm to other islands of a similar size to Ireland but chose not to due to an unwillingness to relocate and a perceived inability to remotely operate the firm from an Irish base, “we were offered work actually in places like the Philippines and Samoa and small places because Ireland actually is a small island system...we could have ended up working in Egypt and we could have got work actually like that but what we found that this type of work is highly sophisticated...it’s not the type of programme you send to somebody and say listen you plug in your stuff actually and off you go and do your own staff”.

Thus the action of a marketing push, be it through a targeted marketing campaign or expanding to foreign markets were not actions that had a positive impact on the entrepreneurs situation as the firm proceeded to fail even after exploring the marketing options.

6.2.3 Network Engagement

A reliance on ones personal and professional network when the process of business failure began to take hold was explored by six interviewees. One entrepreneur turned to their network in an attempt to raise finance, whilst another utilised their network as a means of drumming up new business. In another instance ones network is explored in an attempt to find a suitable business partner whilst yet another interviewee engaged his network to obtain reliable advice and mentoring support. The entrepreneurs also utilised their network to
protect their professional reputation in the face of failure. One entrepreneur used his network to explore new careers options whilst another relied on his network to soften the closure of their firm. These will be explored in greater detail in the following section.

Interviewee 9 attempted to attain funding through engaging his network and had some success initially until the deal ultimately fell through, “forget about the VC, we can go and raise some cash elsewhere so as part of that I went out to one of our existing investors and raised 100 grand, well he put his 100 grand in on the basis that another party would put their 100 grand in, they said they would, he did his end, they didn’t do their end so he pulled out. So the cash side of it wasn’t going to work”. As the entrepreneur was unable to raise the finance required through his network this action did not positively affect the life of the firm or halt the process of business failure.

Another use for engaging networks was to drum up new business and tap into a new and potentially important network of people. This was an avenue explored by one interviewee and facilitated new leads for the business which unfortunately did not lead to any successful deals but did provide the firm with another chance to make an impact, “We got some good leads from one of the XXXX guys who worked at XXXX so he had some connections. He helped us...gave us a couple of leads... people in mobile operations to try to get us in there that got us a couple of interesting meetings that we wouldn’t have otherwise got” (Interviewee 20).

Another benefit enjoyed by engaging ones network is access to advice and mentoring, a self professed “non-IT person” tapped into his network when his firm began to diverge from its intended route. This supplied him with experienced advice and the complementary skills required which allowed for informed decision making, “during my time with Enterprise Ireland I met a man who was asking me what happened and what’s your opinion and he expressed an
interest in being a part of it and he took away the product that I had at the time and did a critical and technical assessment of it and yeah I see where they were going but he said they were never going to produce what you are looking for, so his advice to me was to split and go, take the hit, quote unquote he said you are not the first that has been burnt and you won’t be the last, that goes with the sector right…So they weren’t very pleasant words but something that had to be said so at that point I decided well okay there’s no way I’m going to continue dealing with these people and some of those people by the way I had incentivised in the company Pxxxxxxxxx Ixxxxxxxxx so I decided at that point in time okay I’m going to dissolve the company…I didn’t want to continue dealing with them right, we didn’t share the same set of values or indeed philosophies so I decided to end it and that was the long and the short of it” (Interviewee 22).

Interviewee 25 also relied on their network in an attempt to replace a business partner who got headhunted out of their firm however this action did prove futile as he was unable to identify an individual with the appropriate skill-set required as the network was comprised of similar skilled people, “I did have discussions with people but then I really couldn’t identify the right people to come on board with me. The people I was talking with would have had very similar skill sets to myself where my business partner was a bit more of a business background. Effectively the business when we were trading what I was going to do was the technical element and my business partner was going to do, you know, the sales, the management, the funding side of things where I really couldn’t identify somebody else with that skill set, the people I was talking to were effectively people in my own line and I just felt that what the business didn’t need was two technical people”.

All these actions are examples of interviewees utilising their network to try to reverse the process of business failure and halt the closure occurring. However two entrepreneurs used their network to protect their professional reputation. Firstly Interviewee 7 found a new employment position when his company began to embark on the process of failure. So his network supplied him with a new
career option, thus negating some of the negative effects of failure. The interviewee spoke of the situation, “I was approached by a former employer and asked to go back into the Xx Xxxx Group as Director of Merchant Service Services and the money was considerable and, you know, the putting your life on the line was gone away for while”. Whilst this was not an action that had a positive impact on the life of the firm it was positive for the entrepreneur as it gave the entrepreneur an alternative career option.

As the process of business failure unfolded networks were also engaged to soften the closure of firms. One such entrepreneur called upon his network to take over their customers as “there were five clients who we basically promised too much and we were not delivering in a way that I’m comfortable with if a disaster occurred...so what I did is I actually moved five clients from XXXX to XXXX because what XXXX has done is they have invested in a 200 grand infrastructure platform to do this properly” (Interviewee 16).

So the choice to take action by engaging ones network was taken for one of two reasons: either as a means of reversing the failure process or as a method of reducing the professional fallout in the wake of the failure and preserving ones professional reputation. As a means of slowing or reversing the failure process some actions were promising such as getting business meetings to drum up new business that wouldn’t otherwise have been attained and getting impartial advise and mentoring to redirect ones entrepreneurial efforts appropriately. As a tool for protecting the entrepreneur from professional repercussions in the wake of the failure, engaging ones personal and professional network was a positive action that softened the closure of the firms.

6.2.4 Decisiveness

One approach to limit the damage of the onset of firm collapse is decisive action. Individuals who responded in a quick and resolute fashion to the process of
failure overcame the obstacle and stigmatisation at a fast pace. In many cases interviewees were involved in multiple projects simultaneously and were ‘ideas rich, time poor’ individuals. Thus decisive action was necessary to ensure satisfactory division of time and realistic ideas development. A progressive decisiveness also allowed multiple interviewees to enjoy a “graceful exit” and a range of future career options through timeliness and forward thinking.

The frequency and abundance of competing ventures also invoked decisiveness throughout the process of business failure as individuals had multiple projects to work on and the dissolution of one merely meant increased time for the other. Other entrepreneurs displayed a decisive streak by recognising when the business was beyond repair due to failing to land major contracts with large industry players. The interviewees exited quickly from the market and minimised the fallout.

Table 6.1 provides a breakdown of the interview excerpts that demonstrate the decisive action of the entrepreneurs and feelings and desires that prompted decisive behaviour and informed action.

Table 6.1 Decisiveness

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Decisiveness</th>
<th>What Guided Decisive Behaviour &amp; Informed Action?</th>
</tr>
</thead>
</table>
| 23          | “I mean I’d been in business sort of 14 years or something and, you know, the books don’t lie, it wasn’t making a profit so I took a pretty as I say pragmatic approach and then decided that it wasn’t going to work and I had put in any effort that I was going to put into it. I had done all the things, if you like, and it would either take off at the stage or it wouldn’t, you know, so we decided at that to call it a day” | • Pragmatism  
• Realism  
• Experience |
<p>| 2           | “I kept Bxxxxx Bxxxxxxx Dxxxxx on for the year. They had no real issue I amended the contract so I only gave them thirty percent of my time or forty percent of my | • Better career |</p>
<table>
<thead>
<tr>
<th>Number</th>
<th>Text</th>
<th>Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>“The idea was actually to merge Sxxxxxx then we decided for all sorts of reasons that we wouldn’t bother that we’d just shutdown Sxxxxxx. So I started Sxxxxxx but actually started working in Bxxxxxxx Ltd...so then started Bxxxxxxx Labs and again that was something we actually started as an offshoot of Bxxxxxxx we got some customers and then decided that we wouldn’t bother that we’d actually just concentrate on Bxxxxxxx Ltd. so we shut that down”</td>
<td>• Desire for a ‘graceful exit’</td>
</tr>
<tr>
<td>29</td>
<td>“What happened is that I merged the business with another business in Dublin. It wasn’t that the business actually had come to a point where I had to shut it down, what seemed to be happening with the business was I came to a realisation that in order for us grow I either had to take a step back from the engineering end of it and actually manage my business and have someone under me or stick with the engineering, you know, which is what I’m good at”</td>
<td>• Pragmatism</td>
</tr>
<tr>
<td>10</td>
<td>“the reason that we wound up the company was the project had been attained there was no further need for the actual company to exist at that stage, you know. That was it. It was there for a particular point, there for a particular purpose. It didn’t have a life beyond that so therefore we wound it up and we went back to our other ordinary jobs. We were very singular in the objective, what we had set out”</td>
<td>• Clear goals</td>
</tr>
<tr>
<td>24</td>
<td>“I suppose that’s me, there’s never been a time in my life when I didn’t have at least three different things going on in my life work-wise so its just the creature I am...its just another phase, it’s just another one, you know, its another thing. I got it out of my system and there the next thing to be done, you know...I probably had two other projects simultaneously at that stage so it was simply a transition into the next thing, you know”</td>
<td>• Multiple projects</td>
</tr>
<tr>
<td>28</td>
<td>“Well I mean literally the idea was scrapped...People were involved too much in other things”</td>
<td>• Multiple projects</td>
</tr>
<tr>
<td>17</td>
<td>“there was no business without XXXX particularly because they’ve got Ireland...99% of the low cost stuff at the time was XXXX... It might have been different if we were based in London...you could have been going on YYYY or someone else but out of Ireland it has always been all XXXX, and without XXXX there was no business... the issue was fundamental ... the business”</td>
<td>• Pragmatism</td>
</tr>
</tbody>
</table>
terms didn’t hold water without XXXX”

| 30 | “We tendered two particular projects that we knew were coming up that really we set it up to tender, one with XXXX, one with YYYY, and once we hadn’t, you know, got any work from either of those that was it like, we were there like, you know, there’s no point in continuing on with this, you know” | • Pragmatism  
• Realism |

### 6.3 Summary of Management’s Response Action

An analysis of the data found that management undertook four key actions during the advancement of business decline. As all the firms in the sample ultimately failed the actions the entrepreneurs undertook were not going to be successful however some actions had positive effects on the entrepreneurs situation whilst other actions had obviously negative effects. One of the key actions that failed to make an impact on the entrepreneurs situation or their firms decline was attempts to raise finance as these attempts were either unsuccessful or in instances when they were successful the attached conditions were unsatisfactory. Secondly attempts at a marketing push were also found to be unsuccessful in alleviating the firms’ problems. Network engagement was an action that proved positive in some situations and unfulfilling in other circumstances. Finally decisive action had the most positive impact on the entrepreneurs’ situation and highlighted the fact that when the decline of a firm is handled effectively the negative fallout can be greatly limited. A summary of the key findings for the research question - “What actions does management take during the advancement of business decline?” are displayed below in Table 6.2.
Table 6.2 Actions Undertaken During Business Decline

<table>
<thead>
<tr>
<th>Umbrella Action</th>
<th>Specific Actions</th>
<th>Positive or Negative Impact from Actions</th>
</tr>
</thead>
</table>
| Raising Finance  | • Venture Capital Funding  
• Create Joint Venture with Rivals  
• Business Founder begins Contracting to Raise Finance for Firm | X                                         |
| Marketing Push   | • Target Specific Segments  
• Diversification into Bigger Market  
• Expanding to Similar Sized Foreign Economies | X                                         |
| Network Engagement | • Attain Funding  
• Drum up Business  
• Gain New Employment  
• Obtain Advise and Mentoring  
• Sought New Business Partner  
• Soften Firm Closure and Protect Professional Reputation | ✓                                         |
| Decisiveness     | • Graceful Exit  
• Balance Multiple Projects  
• Accepting Firm’s Fate | ✓                                         |
6.4 Personal and Professional Affect of Failure

The process of business failure had a varying level of impact on the interviewees’ lives in both positive and negative forms. Some entrepreneurs began questioning their judgement whilst others saw the whole experience as a learning opportunity, which has made them the successful business people they are today. An analysis of the data highlighted four groups of entrepreneurs that exhibited characteristics that were homogenous within and heterogeneous between. In order to facilitate a greater understanding of the nuances and similarities between and amongst the groups the interviewees have been segmented into their respected group which have been labelled: ‘Opportunist’, ‘Pragmatist’, ‘Experimentalist’ and ‘Purist’. The groups were segmented based on their approach to business failure, the level of strategic action they displayed, their reaction to the failure of their respective firms and their attitude to the entrepreneurial process. The following section will examine these classifications with respect to research question four and a broader discussion of the classifications shall be included in Chapter 7. The focus of the remainder of this chapter is on answering the fourth research question, which is: ‘How does experiencing business failure affect ones personal and professional life?’

The ‘Opportunist’ had a decisive, clinical approach to the closure of their respective firms and regarded the experience as somewhat inconsequential. This attitude is summed up by Interviewee 24 who said, “It’s just another phase… I got it out of my system and there’s the next thing to be done”. The closure has no affect on their personal life and a positive affect if any on their professional life as the venture provided them with access to a network of likeminded individuals. Some lessons are gleamed from the experience and put into practice in latter ventures. The core similarity amongst the ‘Opportunists’ is their positive, infectious and competent personalities. Their positive perspective allows them to always be on the lookout for new opportunities thus these entrepreneurs are idea-rich and time poor. So when failure occurs they see it as a chance to try a different idea, thus they recover from the closure quickly.
The ‘Pragmatists’ are action-oriented individuals they are eager to complete the closure process as speedily as possible and continue with their careers, their pragmatic nature is captured by Interviewee 10 when saying “I was glad to close down the company…the company had done its job and its time had come”. The failure process infringes in a minor way on their professional life, Interviewee 5 worried what her work colleagues would think of her, whilst Interviewee 16 felt in danger of undoing the years of thrust he had built up with clients. Personal life remains largely unaffected by the closure and once again lessons are attained from the experience.

The ‘Experimentalists’ populate the third group. These entrepreneurs regard the process of failure as a platform for learning and attaining experience that is employed in future situations. Interviewee captured this perspective when saying, “it was a useful learning experience and I don’t consider it a waste of time at all”. From a professional perspective there is a general consensus that once all company debts are paid then no harm has been done. The interviewees acknowledge the existence of stigmatisation towards failed entrepreneurs, particularly in Ireland yet interestingly none of them experienced it firsthand. The main affect on personal and professional life for this group comes from the knowledge acquired through the experience of failure as it prompted them to reassess their lives and start again.

Finally, the ‘Purists’, these entrepreneurs went through the greatest struggle but emerged with the richest knowledge. Both their personal and professional life was greatly impacted by the failure process. Interviewee 9 said that in Ireland when an entrepreneur fails “instead of saying well done for trying, you’ve failed, you now have a scar on your back, they’re kind of saying you fool, why did you even try? And see that’s what happens when you try”. This perspective was reiterated by numerous entrepreneurs in the ‘Purist’ group and highlights the sense of fear amongst the entrepreneurs of being tainted due to the failure experience. This group also experienced breakdowns in their relationships with colleagues as the failure unfolded so the affect to their professional life was
extensive. The personal life of these entrepreneurs was also impacted by the failure experience; Interviewee 7 spoke of debtors coming to his home to get money and the sleepless nights his wife endured due to the pressure. This cohort of entrepreneurs also highlighted feelings of stress and loneliness as they were highly passionate about their firms and took their respective failures personally.

Table 6.3 provides a brief overview of the affect failure the experience of failure had on the entrepreneurs in each category. The remainder of the chapter will discuss these affects on ones personal and professional in greater detail.

**Table 6.3 Affects of Failure by Category**

<table>
<thead>
<tr>
<th>Category</th>
<th>Personal Life Affected</th>
<th>Professional Life Affected</th>
<th>Lessons Learnt from Venture</th>
<th>Emotional Attachments Formed</th>
<th>Sense of Relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunist (5 Interviewees)</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pragmatist (7 Interviewees)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Experimentalist (7 Interviewees)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Purist (11 Interviewees)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

**6.4.1 Opportunist**

The analysis of the findings uncovered a cohort of interviewees that had a cold, clinical attitude to the closure of their firm. These have been labelled as ‘Opportunists’ due to their opportunistic nature and unattached, businesslike response to entrepreneurship. They view the situation as a business casualty rather than a personal reflection on them or their abilities. This attitude reduces the personal and professional affect of the failure as the entrepreneurs move on quickly from the experience. Whilst they are highly passionate about their
business ventures they do not form emotional attachments and their strong business standpoint allow them to have a personal and professional life that remains unaffected by the onset of failure. In retrospect they do not have any regrets but see the experience as a positive occurrence that was a by-product of becoming the business people that they are today.

6.4.1.1 Positive Proactive Perspective

The ‘Opportunistic’ interviewees demonstrate positive emotions towards their business exploits. An understanding exists towards the great difficulty involved in firm collapse however it is the process that these individuals are passionate about, it is not a love of their firm which keeps these interviewees active but a love of the entrepreneurial process. Interviewees categorised into this group very much fit the bill of serial entrepreneurs, they appreciate the negatives but focus largely on the positives that can be derived from a situation, this viewpoint is succinctly summed up in the following interview quote, “Usually when this topic (obstacles to business success) comes up I always remember there is a scene in the film “Shakespeare in Love” and you know the guy who is running the theatre and he’s being stuck up against the wall by Mr. Fennyman I think it is and he says that entrepreneurship is a long road full of insurmountable obstacles on the path to ruination or something like that and that’s largely what it’s like you know and then you cope because you just feel that it will work out someway, how? You don’t know but it’ll work out” (Interviewee 3).

This exuberance is a trend that continues throughout the group as when asked whether they would have done things differently Interviewee 24’s response was, “I wouldn’t change anything, not at all, I wouldn’t change it in the context of, you know, not doing it or doing it. I mean I hardly rate those kind of things...I don’t have any great interests in looking back...I never had”. In a similar vein Interviewee 2 proclaimed the closure of his firm was “just the logical thing to do, the future looked more rosy for me” whilst interviewee 19 stated that “it made sense” to close down her firm. However it is important to contextualise
this statement, Interviewee 2 ran the business alone and had no employees and just one massive contract tender that he allowed to run its course so the closure is hence viewed as a stepping-stone to greater prospects. This ability to constantly reinvent oneself and continuously set the bar higher is indicative of this group of interviewees and their proactive nature. As Interviewee 2 admitted “you can't sit there and watch for stuff to happen”.

6.4.1.2 Nonchalant Attitude to Closure

The interviewees’ ability to separate their personal identity from that of the firm also allows for a speedy recovery as they feel less bruised from the experience and are quick to identify that a failed business does not equate to a failed entrepreneur; the two are not intrinsically linked. This separation allows the individuals to move on quickly as they see the failure as a minor obstacle and not a defining moment in their careers. In fact the manner in which Interviewee 24 refers to their experience of failure is akin to a therapy session as is detailed in the following quote, “Its just another phase, it’s just another one, you know, its another thing, I got it out of my system and there’s the next thing to be done, you know”.

The simplicity with which the decision came to close down the company also indicates what little consequence it had on both the interviewees’ personal and professional lives. As previously stated there is little emotional attachment placed on the identity of the firms’ as the Interviewees are more concerned with the entrepreneurial process. The ease with which interviewees move from business venture to business venture is encapsulated by the following interviewees experience, “It made sense” to close the firm (Interviewee 19). It is clear from the attitude displayed and the interviewees’ ability to reinvent respective careers that these individuals are serial entrepreneurs; enjoyment is derived from creating and launching something new and fresh. There is no persistence made to encourage the initial venture once a more attractive offer
materialises, the individuals ability to make clinical business decisions without emotional influence illustrates what clear thinking business people they are.

6.4.1.3 Infectious, Competent Personalities

Another trait readily identifiable in this cohort of interviewees is the infectious, competent personalities. This trait was key to a fast recovery from the business failure experience as these entrepreneurs were already excited and distracted by another potential venture. Thus these individuals moved on fast, both professionally and personally. The inherent positivity this group of interviewees displayed makes them very charming, likable characters with a real buzz and energy emanating from them. The individuals in this group really capture the essence of entrepreneurialism as they display an engaging interest in people and ideas. The entrepreneurial process and its personal meaning was surmised by Interviewee 3 in the following way, “It was really exciting its really engaging you throw your whole life into it really...it was very hard work but it was very rewarding and gratifying in many ways so in terms of personal development it was great”.

The entrepreneurial competency that is visible in this group stems from the level of self-awareness that each member has, they know what they want, are realistic about their abilities and have the determination to achieve success. The following statements captured the positive self-belief and consciousness; “I suppose I always wanted to do it I always believed that I would do it in my academic and my entire life I thought I’d run my own business” (Interviewee 3). Whilst interviewee 19 said, “Ive always wanted to run my own business”.

Similarly Interviewee 2 details a display of pragmatism, which illustrates a competency within the entrepreneur by explaining the narrative behind the inception of their business, “I suppose my primary objective of the business was to create an income to replace the income I had with my multinational so what I
needed to see was a recurring revenue stream and recurring billing so I was trying to find someone who would give me a month on month fixed retainer for a year or two years. That was the primary planning concern and I got that through Cxxxx & Wxxxxxxx. If I didn’t have that I would have to find somebody else or a number of them to make up that income, so the whole thing was about recurring revenue so really mines unusual because when I got what I needed I didn’t go any further than that”.

6.4.1.4 Entrepreneurial Process Enthusiast

The way that interviewees in this group approach new enterprise development is with great vigour and passion in the initial stages, however this buzz appears to dissipate as the firm becomes more settled leading the entrepreneur to focus their attention on their next project. As such once the firm is being wound down the entrepreneur is already beginning to focus on a preceding business opportunity, leaving little time to dwell on or worry about personal or professional failure fallouts. The interviewees are eager to repeat the unpredictable entrepreneurial process rather than concentrate entirely on one project; this is demonstrated by the following quote, “I would be a good start-up manager in other words I would be somebody who could get something off the ground fairly quickly and probably bend all the rules do things my way and get stuff done in terms of actually then getting the company to a certain point after a certain point it would be better of being run by a professional manager which is what we have now” (Interviewee 3). Whilst Interviewee 24 acknowledged, “I suppose that’s me, there’s never been a time in my life when I didn’t have at least three different things going on in my life work-wise so it’s just the creature I am”.

Similarly the task of actually growing and developing the firm was regarded as excessively time consuming for one of the Interviewees who instead wound down the moderately successful firm in favour of embarking on a new business venture, “I was trying to run a business myself and do all the actual work itself, you know, I didn’t really have time literally to promote and build the business as such” (Interviewee 29).
6.4.1.5 Constructive Attitude

As previously mentioned in section 6.4.1.1 the ‘Opportunistic’ entrepreneurs are akin to serial entrepreneurs, they appreciate the negatives of failure but focus largely on the positives that can be derived from the situation. Thus the positive, ambitious nature of these entrepreneurs has led them to examine their encounter with failure as an experience to embrace and learn skills and lessons from. These individuals, all of whom are a director of a currently trading firm, regarded their brush with failure as an opportunity. It was seen as experience-building exposure to the process of firm start-up and closure, this in turn enabled them to be more prepared for their subsequent entrepreneurial ventures. One interviewee discussed their lifelong desire to be at the helm of their own business but recognised the necessity of valuable, related experience, “I think that my life I suppose has been a training ground for getting a business off the ground for actually dealing with people and solving problems” (Interviewee 3). The need to add the lessons learnt from their initial failure to their stock of knowledge to enable better preparation for future ventures is also appreciated by Interviewee 24 and 19. Interviewee 19 described how the process provided, “a whole range of business experience...experience you just don’t get elsewhere”.

In summary the ‘Opportunists’ heralded their experience with firm closure as a largely positive experience from which useful experience was gained and positive lessons were learnt, these lessons were subsequently utilised in future business activities. The drive and enthusiasm with which they approach their work with is unflagging and infectious. The ability to separate their personal identity from that of their firm leaves them capable of making objective, business savvy decisions that are in their best interests. The personal and professional lives of these interviewees are not impacted in a negative way, and from a positive perspective they recognise that they have gained valuable experience and knowledge. These interviewees viewed the firm in question as a gateway firm to facilitate the transition to another venture and it was an experience that was not regretted.
6.4.2 Pragmatist

The ‘Pragmatist’ entrepreneur exhibits a sense of relief when the firm is dissolved. Similar to the ‘Opportunist’ these entrepreneurs have control over the closing down of their firm and as such have the ability to minimize the negative impact it has on both their personal and professional life. Thus they are largely unaffected as a result of the failure however in some cases there are professional questions that require answering from customers, workers and colleagues. These individuals are fast acting, clinical, decisive and quick to move on from the experience as their pragmatic nature means they have another project in the pipeline.

6.4.2.1 Learning

Given the intense experience of the process of firm start-up and resulting business collapse it is unsurprising that ‘lessons learnt’ was also cited by interviewees in this group as something they took away from the experience. In fact one interviewee from an IT background and with no prior experience in business discovered just how little they knew about running a business through their brush with firm closure and the experience called the individual to action as depicted in the following interview excerpt, “I went and did a diploma in Business Development... it (the failure experience) really did open my eyes up to a lot of things that I got away with not knowing properly” (Interviewee 16).

In a similar vein, experiential learning was recognised as an outcome from the process of firm collapse by other interviewees in the group as exemplified in the following quote, “I learnt basically just the process and planning I learned a lot about kind of companies and you know, the kind of process that goes on around them” (Interviewee 10).
6.4.2.2 Acceptance

Having the perspective to accept the fate of the firm and be practical and decisive in their approach to the firm demise are important attributes to have if one is to recover quickly from the closure of the venture. This is facilitated by the agility, practicality and broad spectrum of activities that is associated with interviewees in Group 2 as evidenced by the following comments, “I’m a director of 5 companies or 5 or 6 companies so I’m very busy anyway. And what I did with Oxxx (the company) was I sort of took if you like 6 months away from the other businesses and tried to set that up but organise it... (when the firm closed)... I just went back to my other work, you know, it didn’t really have a huge influence on me” (Interviewee 23).

Acceptance was more attainable given the individuals ability to see a clear delineation between their personal identity and the identity of the firms. The closure of the firm is a consequence that does not impinge on their personal identity. One interviewee described his response to their firm’s closure, “just chop it off and get the courage to start again” (Interviewee 13). Interviewee 4 also approached the situation from a highly pragmatic stance and once again the interviewees aptitude for separating their personal identity for their professional identity shines through as displayed by the proceeding statement, “I had taken the view that it really wasn’t something that I could guarantee to be successful at or that I would taken personally if I wasn’t successful at it was a problem not of my making but there was an opportunity for me to solve it and if I didn’t solve it I kind of reverted to the fact that it wasn’t a problem of my making and if I did solve it then great, I was successful” (Interviewee 4).

It is this ability to confine the firm closure experience and impede it from affecting other areas of ones life by having a pragmatic perspective that makes it more readily acceptable. Once acceptance and perspective have been achieved the interviewees were better situated to move on and attain a more successful position.
6.4.2.3 Recovery

The interviewees’ skill at recovering professionally from the closure of their respective firms was eased by tackling the issue from varying, positive angles. One interviewee in the following excerpt surmised this positive attitude, which was reflected by the entire group, appropriately, “That really anyone can do anything provided they are willing to go for it and set their mind to it it’s that saying of whether you believe you can or you can’t your right. I suppose that’s what’s hammered home to me really is that anything’s possible” (Interviewee 4).

Another trait inherent to this group is their sheer pragmatism. All individuals in Group 2 began their firm to fulfil practical demands, such as creating a front to collaborate with complementary industry peers to tender for a contract, or in order to be tax compliant. The pragmatic nature employed at the beginning of their firms’ life is also engaged at the end and this also aids the recovery, Interviewee 23, 30 and 13’s ability to contextualise the closure of the firm illustrates the considered approach this cohort of interviewees have to the process of firm closure:

“I think what I’ve heard now is that going bankrupt is a badge of honour in the States… I didn’t really see as that no, to be honest with you… if it was my livelihood and if I was putting food on the table at home, and it was keeping my home, it would have had a huge impact on me, but it didn’t really because it was an investment really, an opportunity, it didn’t impact me that badly at all, no. And I didn’t feel that really, no... I kind of think it wasn’t my primary income or my primary company” (Interviewee 23).

“I suppose given that it was really a project... trying to develop it into something just like we’re doing things like that every day in our business ... this was just one we did with other people and we set up this company around doing it so... it wasn’t a big issue at all to be honest” (Interviewee 30).
“it wasn’t the vehicle with which we wished to continue doing business”
(Interviewee 13).

6.4.2.4 Professional Repercussions

The influence of interviewees’ peers and professional networks changed as a result of their firms’ closure. One interviewee in particular experienced complete alienation from peers when choosing to exit the market and shut-down a successful telecommunications consultancy firm in favour of retraining and re-entering a new market as a lifestyle coach. This interviewee anticipated the response of industry peers and cited being wary of their reaction as divulged in the following statement, “I was very nervous I was nervous of a couple of things I was first of all nervous about what people would think of me because I thought they would think I had lost my marbles totally I’m packing in a high flying job, a serious amount of money, lots of respect, well known entrepreneurs, what am I doing this for so I thought people will think I’m nuts” (Interviewee 5).

The interviewee’s foresight at predicting the industry peers were more than realised as evidenced by the proceeding interview excerpt, “My former colleagues, my work colleagues couldn’t get their heads around it they thought I was absolutely nuts they just couldn’t comprehend it and then when I was actually back in college and training because part of the training I did was I trained as a nutritional therapist, as a life and business coach and as a personal trainer and one of my ex-colleagues I remember him saying to me, “Jesus XXXXXXX I thought you were smart what are you doing training like that”, and I’m thinking whatever. So I got mixed reactions I suppose and then my friends were quite supportive then when they saw that I had some type of plan but people did initially think I was nuts but that’s their problem” (Interviewee 5). However having envisioned the initial reception of the decision in advance, the interviewee was prepared to overcome the implied negativity and continue on their chosen path.
Another interviewee experienced professional repercussions of a different variety. The individual in question found that their association with firm closure led some of the firm’s customer’s to question the entrepreneur’s ability to manage their remaining businesses with which they were customers also. The entrepreneur details the development of the situation, “Certainly towards the end it was a tricky conversation because of what we had done and the years of building up trust but then it collapsed and I was in danger of messing that up by not severing my customers so...those five clients I’ve told you about I had some very awkward conversations with them about saying guys I’ve messed up here, you know, I’m not able to deliver on what you signed up for and what you believed you were going to get from us...so that was an awkward conversation I had with those five clients to move them...one of them left me a year later and one of the reason they cited for leaving me was look, you know, we’re really pleased with IT Fxxxxx but you really let me down with Cxxxxxxxxx and I can’t forget that. So I did lose a significant client because of the failing of Cxxxxxxx, the other four I have retained” (Interviewee 16).

Interviewee 13 rationalised that the professional repercussions stemming from business failure are due to Irelands culture and size, “we are a little caught up in having opinions all the time and perhaps that’s due to the close nature we have in Ireland everybody knows everybody in Ireland a lot of business is done on who you know rather than anything else however you are held accountable if anything goes wrong so it’s a double edge sword” (Interviewee 13).

6.4.2.5 Regret

Regret is an emotion one would strongly associate with the pre-mature closure of a firm however it is not a feeling the interviewees in the Pragmatic group associate with the process. When one interviewee was questioned on whether they would change anything if they could go back the response was: “Probably not anything very significant lots of small things along the way but you learn as you go” (Interviewee 4). Another entrepreneur who acknowledges that had they
kept their business afloat stayed it is likely that they would currently “probably be a multi-millionaire and never have to work again”, however the same interviewee was still adamant that the correct choice was made as when questioned over regrets regarding the closure the response garnered was “no never at all” (Interviewee 5).

Once again pragmatism, perspective and acceptance where brightly displayed by Interviewee 10 who when asked about feelings of regret at their firm closure acknowledged: “No I was glad to actually close down the company because, you know, we had done...the company had done its job and it’s time had come” (Interviewee 10).

Pragmatic entrepreneur’s exhibit a sense of relieve with their firm is dissolved, they like to follow the rules and as such only feel truly satisfied once all the paper work is completed and they are officially finished with their firm. These entrepreneurs learnt valuable lessons from the failure experience. They were quick to accept the fate of the firm yet their pragmatic nature meant they already had another business project in the pipeline to embark upon once the closure process was complete. This action also helped ward off the some negative professional affects that may occur as the entrepreneur was not idle after the failure but went straight into another business venture. Altogether the affects of business failure on the pragmatists personal life is minimal whilst from a professional perspective there are some short-term affects in the wake of the failure.

6.4.3 Experimentalist

The ‘Experimentalist’ engaged with the failure process as a valuable, practical learning experience. Their personal life remains largely unaffected by the failure but their professional life is affected to a small degree. However there is a general consensus that once all debts of the company have been paid then there is
no harm done. The entrepreneurs in this group have formed emotional attachments to their company in some cases and as such some individuals are disappointed when it is forced to close. Once again learning and knowledge acquisition was a fundamental outcome of this experience as Interviewee 5 stated that the “there was nothing really got from it bar the experience…the experience would have changed me”.

6.4.3.1 Stigma, Psyche and Distance

When interviewing the interviewees a question was asked about stigmatisation and the whether it was experienced by the entrepreneurs as a result of their business failure. The response to this question from the ‘Experimentalists’ was largely positive with interviewees agreeing that whilst the negative connotations towards failure still exist in Ireland there is an understanding amongst the entrepreneurial community that this perspective is unproductive and archaic, as evidenced by Interviewee 20, “Other entrepreneurs that you deal with would have the American point of view, they wouldn’t have consider it a bad thing cause they’re... maybe people who have only worked for other companies might see it that way but that isn’t very popular, many people want to make sure you had a good go of it, so no, no major negative reactions”.

Another entrepreneur also avoided the negative stigma and attributes this to the fact that the firm closed without owing creditors or having debts. However the same individual is quick to acknowledge that the Irish people still see a stigma attached to early firm exit as detailed in the following interview excerpt: “Like personally I didn’t but I would agree with it essentially if you know what I’m saying...Like I’ve seen other people close down businesses and so I suppose really I just say from our point of view it was a very soft close, you know, we had no creditors, we’d no particular debts ...and really the company closed before we went to that level so we didn’t have any debts and so on. So from that point of view I didn’t actually experience it personally but I would be saying I agree with it, I think there is a stigma to winding up a start-up, yeah” (Interviewee 25).
The interviewees also acknowledged the existence of a failure stigmatisation existing in Ireland yet interestingly none of the entrepreneurs felt they were stigmatised either by their industry peers or professional network. Yet another entrepreneur explains their ability at avoiding the stigma was aided by the fact that they were not in the public eye with regards the failed firm and was merely a named director and investor, “If you had gone into the Companies Office and searched you would have seen that I was a director but like it was never ... like it was based in Cork and I was in Tralee so it wasn’t something that I was associated with personally” (Interviewee 17).

The interesting anomaly of the interviewees cited the staunch existence of stigmatisation but none of them experiencing it was touched on by one of the group’s members, “There’s a culture here I think, it depends on who you’re talking to you, some business people here would be the same as the Americans, you know, ah you just take a chance sometimes and if it doesn’t work well and good you move on, do something else, you know, I think” (Interviewee 28).

These responses are interesting to note, there is strong belief in the business community of a vast chasm of cultural differences between Ireland and the United States’ in their attitude to failure. In Ireland firm failure is often depicted as a shameful stigma whereas the United States’ regard it more as a badge of honour. However this findings shows that whilst individuals still believe this to be the case none of them experienced it firsthand.

6.4.3.2 Experience and Knowledge Acquisition

The interviewees in Group 3 discussed the knowledge and experience they gained from the process. As the members of Group 3 are experimentalists in their approach to entrepreneurship the entire process was a learning curve from which they developed new skills even if they were derived from a negative outcome, like firm failure. The learning attained was largely experiential as detailed by Interviewee 25, “So there was a lot of work went into it, a lot of work really was gone, you know, the work was down the drain, there was nothing really got from
it bar the experience I suppose…the experience would have changed me… I learned a lot about setting up a company in Ireland, I’ve actually got a lot of experience of going to people like Enterprise Ireland”. Whilst Interviewee 6 acknowledged that, “you don’t learn anything from doing something right…you learn from making mistakes it’s a great way of learning”. Furthermore, Interviewee 20 found a certain relief in closing the door on that period in life and could see the importance in the knowledge gained, “It was kind of what a relief. It was disappointing, but it’s also kind of nice to pack something up. Not going to continue just to move on. Not kind of moping around over it. You know, it was a useful learning experience and I don’t consider it a waste of time at all”.

Conversely Interviewee 28 was reluctant to admit acquiring new knowledge from the new enterprise development as they stated, “it was a business venture that just wasn’t going to work … we pulled it before we learned the hard way, you know…And we were involved in other businesses and we all went our own way in our own businesses”. He continues to say, “I learned more from my own business than I did from that business venture” before finally admitting, “I learned a bit now about how investment companies operate... I suppose I did learn quite a lot about that” (Interviewee 28).

Finally the experience reaffirmed wisdom for Interviewee 17, that one shouldn’t invest what one is not prepared to lose as exemplified in the following interview excerpt: “Well these things are kind of like when that kind of thing finally happens it’s as much a relief as anything else, that it’s a final conclusion to it, like we invested in 2000, we eventually sold our shares for €5,000 so we didn’t take an interest in the company but, you know, it was a bitter pill to swallow at the time but we just got on with it...and it did owe me money. Every time you make an investment there’s a potential that you might lose it anyway, you know, if you can’t don’t climb on board, and if you can afford to lose you get on with it”.

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6.4.3.3 Positive Outlook

The ‘Experimentalist’ interviewees remained upbeat and were accepting of their situation readily as Interviewee 25 declared, “I had no financial element there, I didn’t lose my shirt, you know, I still had a huge amount of money like I had invested time and effort; there was no financial loss. So it was disappointing for us alright but I suppose I’m used to it, it can be a changing game so I was disappointed but that was it, just a bit disappointed”.

Yet another entrepreneur saw the premature closure of their firm as the push they required to fulfil their ultimate career goals, thus being a largely positive experience the led them to the success they are today. This is detailed in the following quote, “I got closer to my own plan. Like kind of what it did do was it spurred me on. I ended up leaving the job that I was in anyway; I went and took another role. The role I took on was the role as an IT Manager for a company so I thought you either do this or run a company, possibly that did make me a wee bit confident to set my sights higher than just good at software development jobs, if you know what I mean. Whether actually I’d have gone and pursued a job as an IT Manager without having the experience of running a company I don’t know, you know, so I suppose it is from that point of view, from the company, I did get ... it made me start thinking and looking forward from the software development side of it that was going on in the world to get me to be more of a manager. About a year after the company shut down I started actively looking to leave the job that I was in but I was actually really thinking about it for most of the year, I went looking for roles, I tried to find roles that challenged me and that I’d enjoy. So really within a year of the company closing down I had left my job and gone into another role, another more senior role that I enjoy much more so I think from that point of view” (Interviewee 25).

Another interviewee spoke more contritely of their experience, “I just continued on in my own business which was busy anyway, you know” (Interviewee 28).
6.4.3.4 Moral Duty

A bi-product of firm closure is the loss of scarce resources that were ploughed into the firm in the hope of a healthy outcome and resulted in some stakeholders losing more than others. In one case a founder’s entire PhD research was lost due to the firm not succeeding under the guidance of venture capitalists, “This is unfortunately the venture capital way, companies go out of business in that model, but I just sort of felt particularly bad because of the founder and that person had put their trust with that venture firm ... to ultimately finance the commercialisation of their research and given that the research is now owned by the company as Intellectual Property I mean that IP was sold actually to a hedge fund that managed one of their customers. So not only did a person put a lot of effort in and not see any return for it but their IP was then sold as part of the downfall of the company so just like very disappointing. Not a nice situation” (Interviewee 14).

The same company also closed with a large amount of debt, which left the firms most vulnerable stakeholders, the creditors and the staff, unpaid, “Yes it certainly had debt, now to what extent, you know, somewhere between 50 and 100K... so there would have been sort of landlord sort of debt and then some small creditors but then staff would ultimately not have got paid” (Interviewee 14). However Interviewee 10 sums up the general consensus on moral duty in relation to firm closure, amongst all interviewees across the spectrum of groups best when voicing, “Once a person pays their taxes and doesn’t bring anyone else down with them then they can hold their heads high” (Interviewee 10).

The Experimentalists predominantly viewed the process of business failure as a valuable learning experience. Whilst these individuals are fully aware of the negative aspects of failure such as stigmatisation, they are able to see beyond the negatives and embrace the experiential learning they have gained from the process. Their personal life remains largely unaffected by the failure but their professional life is somewhat affected through lost investments etc. however the
entrepreneurs are rational about the process and feel that once they have fulfilled their moral duty to the best of their ability then they are relinquished from blame.

6.4.4 Purist

This cohort of entrepreneurs is the most affected both personally and professionally from the failure experience. A strong sense of emotional attachment to the firm is exhibited and once the failure experience has been processed and reflected upon there is a sense of regret at the Interviewees’ handling of the process followed by relief that the experience is behind them. The ‘Purists’ personal life is affected due to loans from family and friends being lost when the business goes under. Furthermore individuals professional life is affected but again if the firm exits with all debts paid interviewees are generally satisfied that the have fulfilled their moral duty as an entrepreneur and human being. More positively a substantial amount of learning is amassed and more importantly, acknowledged. The entrepreneurs that populate this group are probably the best at understanding and accepting the mistakes they made and are more aware of where exactly things went awry.

6.4.4.1 Stigma: Self-fulfilled Prophecy?

The individuals categorised into Group 4 are those that experienced failure in a pure form, meaning they set up a company that against all efforts failed in the traditional sense. Thus it is reasonable to assume that interviewees in this group were more predisposed to stigmatisation than members of other categories. This assumption was further explored and brought some interesting perspectives to light.

It was recognized by the interviewees that Irelands attitude to failure is less tolerant than the US yet increased understanding exists between entrepreneurs and they are more tolerant and unbiased towards peers who have experienced
failure than they believe the general public to be. The following statement, which was given when the interviewee was questioned on the varying attitude to failure in Ireland and the US, evidences this view, “Ahh more so in Ireland than say the US or places like that but there shouldn't be and I certainly don't think it's as bad as it was when we started and we started in 1994...am...being in business I would never look down my nose at someone who failed in business because at least if you failed you had a go and as long as you learn from it...everybody in this country who has done well in business has failed somewhere along the line and if you don't fail your either incredibly, incredibly lucky or your not taking chances and to be successful you have to take chances its all about taking risks” (Interviewee 1).

The perspective that many of the entrepreneurs chose to discuss was that of the general public and interviewees were strenuous in their opinion regarding the negative connotations associated with business failure in Ireland. The negative attitude of the Irish was contrasted with the positive attitude of the Americans by Interviewee 26, “In America bankruptcy can be seen as a thing of honour because of the fact that you tried and failed rather than not having tried at all. Over here they only count the failure”. Similarly Interviewee 9 detailed the begrudging nature of the Irish as he said, “I think here in Ireland it's a big fall down and you’re kind of left there and instead of saying well done for trying, you've failed, you now have a scar on your back, they're kind of saying you fool, why did you even try and see that’s what happens when you try. In the States I was over in the States at a golf thing but I don’t play golf and the guys who found out almost straightaway – I don’t play golf – and this guy he was the Managing Director of Oxxxxx (global software firm) at the time, he said what’s wrong with you. I said I just had to close down one of my businesses and I lost my shirt and I’m just trying to get on and basically he gave me a big pat on the back and said welcome to the club, it gets a lot easier from here on in”.

Interviewee 18 labelled the notion that the Irish people rejoiced in the downfall of their neighbours as “the Irish mentality”. This was strongly reiterated by
another interviewee who claimed, “I don’t have time for people who might feel like that. We get on with it, you know... You have to get on with it. It gets tougher every year but, you know, I mean people are jealous of success, you know, and they poo-poo failure, maybe you’re right, but we’ve an awful reputation in Ireland. I think what we are as a race I think we’re bigoted, I think we’re racialist, I think we’re ... there’s so much bad about this country that we talk about as being so great, you know” (Interviewee 7).

However interviewee 15 who saw the issue of stigmatisation as being potentially a self-fulfilling prophecy, raised a very interesting point. It was suggested that people judge you more on your reaction and response after the failure occurs as they do towards the actual failure situation. Thus exuding guilt and shame in the post-failure period can elicit negative responses from people whereas positivity and hopefulness will remove the negativity from people’s mindset. This idea is explored in the proceeding excerpt: “people should actually be encouraged to say look no it’s alright, it was no hassle at all, we actually closed down, we’re just moving on, we’re looking at something else but people see it as a source of depression and I know that and present friends of mine have come to me in their darkest hours and asked me to call down and help them actually to put a CV together and have left the country and things went sour ... and I know that part of what they did was they tried utterly and desperately beyond where it was reasonable in order to keep the business going and sometimes in fact you need unemotionally to say look this is not going to work out, we need to think and take a careful look at this and we need to make a decision and that decision has to be made fairly and upfront.... And if you feel in fact that you know that this is beyond redemption the sooner that you can recognise that... and then just get out, hold your head up and just get on and say look we’ve made a decision on this and we’re moving on and I believe that’s the right way to do it and that’s the right way for people to think.... we just made a decision to move on and you don’t even give it a moment’s thought ... you know sometimes people’s reaction is based on your own reaction.... if you’re down and depressed and feel like that you don’t want to show your face your business people will say oh God he’s really gone down. You’re better off actually to come out with it and just say look
it’s no big deal, we did it and we’re not the first and we’re not going to be the last and we’re going to move on and that’s how it is. And people will just see it as a one day wonder” (Interviewee 15).

This is certainly an interesting concept and one that could explain the feelings of Interviewee 21 who acknowledged that because being a silent director in the failed firm the individual stated when questioned whether or not the business collapse affected their professional life the response was, “Not at all. Not at all...no because we are all very private...this was not in a public light at all...and it will stay that way” (Interviewee 21). Thus since their involvement in the firm failure was not publically known they could not have experienced stigmatisation yet when queried about the failure the interviewee admits, “I’m embarrassed talking to you” and later on describes the interview as being like “a priest trying to get me like to confess my sins” (Interviewee 21).

Finally interviewee 22 also regarded the stigmatisation of people who experienced failure as being a self-fulfilled prophecy dependant on a person psyche as shown by the following quote, “But having said that like you know the stigma attached to it, well that’s down to people really, you know I suppose you know our psyche is that we like to think that we can be sort of successful but closing a company down is not necessarily a failure, it can be a right decision” (interviewee 22).

6.4.4.2 Relationship Changes and Support Networks

When interviewees were questioned about changes to their professional relationships as a result of experiencing failure the results varied. Given the desire of interviewees in Group 4 to see their firm succeed when in fact against all efforts it failed, emotions were quiet high for some of the interviewees and their fellow stakeholders. This led, in some cases, to a breakdown in relationships that was irreparable. The emotional response elicited by
Interviewee 8 demonstrates the irrevokable breakdowns that can occur amongst colleagues when firms fail, “Some of the good people, the people I had respect for and time, you know, had no problem because they knew exactly what happened, I’ve talked to them since, kept in communication with a lot of them. For the ones – I know this is being recorded – but for the ones I’d describe as assholes ... I never spoke to them again nor would I want to speak to them again...Ignorant people who were bigger than their ability”.

It is clear for some interviewees that the impact of relationship breakdowns is still raw in their memory and it still elicited strong emotions. Another interviewee shows distain through dismissive language, “when Oxxx failed I did personally find it quite hard to deal with Enterprise Ireland again but lucky for me the investors that were involved with Oxxx they don’t really have much to say, their opinion wouldn’t really count much” (Interviewee 9).

Conversely in some instances the stress of constantly battling against the tide took its toll on personal relationships and it was the imminent closure of the firm that helped to reclaim these strained bonds. This was the case for one interviewee who was so adamant to ensure the firm remained open that the entrepreneur began a project in Spain in the hope that the resultant profits from the Spanish venture could be repatriated back to the Irish firm. However over-committing and under-delivering to both projects saw them both fail, as detailed in the following statement, “I told my wife and she couldn’t wait. She’d lived the sleepless nights and the late, you know, long hours so she was ... and the project in Spain which was a similar thing plus something else we put some money into and that didn’t work and my mistake really was I shouldn’t have done both ... but I couldn’t make enough out of one to make a living so I mean I was working all 7 days a week, you know, for about 2 years” (Interviewee 7).

For two interviewees the fallout from the closure of the firm was minimised as the entrepreneurs support network provided the individuals with support and a
job to go to when the firm collapsed. So whilst in some instances relationships broke down in others cases they were renewed and strengthened as indicated by Interviewee 7, “Well I was shuddering along, I was bouncing along the bottom and then I got a phone call from XXXXX again who said XXXXX, you know, we’ve grown our business into something, you’re a good guy, I want you to come in and do this special project for me…And he offered me loads of money and share options and all that so I said “alright” (laughs) I think it took about 10 minutes to make my mind up”.

Similarly, another entrepreneur gained employment with the firm acquiring their unsuccessful company as a condition of the acquisition, as depicted in this interview transcription, “When Sxxxx were taken the assets of the company one of the conditions of the acquisition of the assets was that I would join them ... to spearhead that. I went to Sxxxx, you know, to sort out a lot of their legacy crap that they had on their network rather than triple play ... which they denied ever was a problem for years and got on with my life” (Interviewee 8).

Another interviewee described how having dealings with the same stakeholders in multiple businesses lessened the awkwardness for the entrepreneurs as they still maintained a working relationship due to the entrepreneur’s remaining ventures, “our main advertisers were a lot of the drinks companies, Sxxxxxxx was probably one of our biggest sponsors because they were very involved in clubbing at the time...again they were disappointed but they always had the fact that we owned a nightclub and pubs so they couldn’t be too disappointed with us because we sold their product” (Interviewee 1).

Clearly the bonds and strength of relationships one has build up can definitely help alleviate some of the negative aspects of experiencing firm collapse, be it through attaining new employment or simply receiving empathy. This is particularly important in a market as small as Ireland if one does not wish to gain a negative business image, as peoples’ reactions do dictate how one is judged in
the post-failure period. As Interview 7 proclaimed when asked if they had experienced negativity from their professional network due to the failure process, “No because people know me...” (Interviewee 7). The same individual also noted the importance of preserving relationships as they stated, “Ireland is a small place and you mess people around here and they never forget” (Interviewee 7).

6.4.4.3 Learning

Learning was a positive outcome attained through the process of business failure for the interviewees in Group 4. As the individuals in Group 4 experienced failure in its purists form and were the most emotionally involved of all the four groups it is these interviewees that gained the most long-lasting lessons. The interviewee in the following excerpt best explores this, “I learnt not to go into businesses that I know nothing about, ah ya it was humbling...ah I wouldnt mind the money back (smiling) but other than that I wouldnt change it again it was a good experience but ya I suppose the core thing I learnt and I learnt it the first day I went to college...was stick to what your good at and what you know and it was our biggest mistake that we went into a business that we knew very little about” (Interviewee 1).

However there was two interviewees who refused to let go of their business idea despite experiencing business failure. Interviewee 22 experience failure twice (and once more since taking part in this research) due to an inability to successfully create and launch their desired software product. Whilst interviewee 27’s first venture failed and he is currently trying to launch his venture again. Entrepreneur 22’s intense passion has seen the project being relaunched on various business platforms however the interviewee does not possess the technical skills required to create this product and thus relies on software development houses and freelancers to realise their prototype. To date the entrepreneurs concept and the designers outputs have not aligned, so perhaps this interviewee has learnt incrementally and each venture gets one step closer to realising their ideal product or perhaps passion has outweighed rational
decisions, “Oh gosh no I was prepared to explore other avenues, as I say when you’ve been burnt for a lot of money and time and interest and emotion and everything else you feel very let down and you are slow to sort of repeat that experience, but the emotions rather than sort of shall we say business decisions take over and ultimately a decision had to be taken do you continue or do you leave it...But I believed in the idea so much that I felt it was worth sort of pursuing whether until I did that” (Interviewee 22).

6.4.4.4 Loneliness

The concept of loneliness arose on two occasions for interviewees in this group. Firstly one interviewee described his personal situation when questioned on his motivations for beginning a new business, “You see I was on my own. My wife had died and I had retired and I was on my own so the family were all gone away, I did this all on my own” (Interviewee 21). The same individual later spoke about the embarrassment felt when he considered the failure and to compound his loneliness there was a reluctance to discuss the situation with friends and networks as he stated, “I never spoke to the others about it, I don’t know, I have for 2 years been trying to work out, ‘how did you do that’ and I cannot answer it” (Interviewee 21).

An added sense of loneliness is inflicted upon the entrepreneur due to his shame and unwillingness to discuss the failure, this is likely to be impacted by the entrepreneurs age. He was 70 when the firm failed and pride seems to have eclipsed his desire for understanding. Interviewee 12 also discussed this sense of loneliness, “it’s very stressful really, you are very much alone in the sense really that you’ve put your life into it and it’s unravelling and unravelling fast and that you can’t make anything out of it really”.

The Purists are the entrepreneurs that best fulfil the traditional views of the business failure in that the experience affects both their personal and professional
Their personal life is affected through the loss of loans obtained from family and friends and the stress and pressure of the ailing venture manifests itself in the entrepreneur’s private life (e.g. staff calling to the entrepreneurs private home looking for money, going contracting in a foreign country away from family to get money to reinvest in failing firm). The professional lives of these entrepreneurs are also affected through debt acquisition and disputes with business partners. Furthermore professionally these entrepreneurs take longer to recover from the failure process, they tend to take time to assimilate the experience consequently this allows them to better understand what happened and in turn, learn from past mistakes. It was found that entrepreneurs in this group were best at understanding what went wrong for the firm and most acknowledging of the mistakes.

6.5 Summary of Personal & Professional Affect of Failure

Analyses of the data show that the business failure experience had different affects on different sets of entrepreneurs. Firstly the Opportunists regarded the process of failure as a positive experience on both their personal and professional life. Failure provided them with useful experience and positive lessons that were subsequently used in future business activities. The Pragmatists also learnt valuable lessons from the failure experience. They were quick to accept the fate of the firm yet their pragmatic nature meant they already had another business project in the pipeline to embark upon once the closure process was complete. Their personal life is unaffected by the closure but their professional life is affected to a certain extent. For the Experimentalists personal life remains largely unaffected by the failure but their professional life is somewhat affected through lost investments. These interviewees regard the failure process as a valuable learning experience that helped them become better business people in the subsequent business ventures. Finally the Purists; both their personal and professional lives were impacted upon by the failure process. These entrepreneurs take time out to reflect on the failure process and appreciate the impact it has had on their lives. Table 6.4 gives an overview of the affects of failure.
### Table 6.4 Affects of Failure

<table>
<thead>
<tr>
<th>Category</th>
<th>Personal &amp; Professional Affect and Response to Failure</th>
<th>Synopsis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opportunist</strong></td>
<td>Positive Proactive Perspective</td>
<td>Opportunists are highly passionate about their business ventures they do not form emotional attachments and their strong business standpoint allow them to have a personal and professional life that remains unaffected by the onset of failure.</td>
</tr>
<tr>
<td></td>
<td>Nonchalant Attitude to Closure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Infectious, Competent Personalities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Entrepreneurial Process Enthusiast</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Experience Building</td>
<td></td>
</tr>
<tr>
<td><strong>Pragmatist</strong></td>
<td>Learning</td>
<td>Pragmatists have control over the closing down of their firm and so minimize the negative impacts to their personal and professional life, yet in some cases there are professional questions that require answering from customers, workers and colleagues.</td>
</tr>
<tr>
<td></td>
<td>Acceptance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Recovery</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Professional Repercussions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Regret</td>
<td></td>
</tr>
<tr>
<td><strong>Experimentalist</strong></td>
<td>Stigma, Psyche and Distance</td>
<td>Experimentalists have formed emotional attachments to their company, learning and knowledge acquisition was a fundamental outcome of this experience, their personal life remains largely unaffected by the failure but their professional life is affected to a small degree.</td>
</tr>
<tr>
<td></td>
<td>Experience and Knowledge Acquisition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Positive Outlook</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Moral Duty</td>
<td></td>
</tr>
<tr>
<td><strong>Purist</strong></td>
<td>Stigma: Self-fulfilled Prophecy</td>
<td>Purists are the most affected both personally and professionally from failure. They form strong emotional attachments to the firm and once the failure experience has been processed and reflected upon there is a sense of regret at the Interviewees’ handling of the process followed by relief that the experience is behind them.</td>
</tr>
<tr>
<td></td>
<td>Relationship Changes and Support Network</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Learning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Loneliness</td>
<td></td>
</tr>
</tbody>
</table>
6.6 Conclusion

This chapter presented the findings of the final two research questions. The first half of the chapter examined the actions management take during the advancement of business decline, whilst the concluding section of chapter six looked at the affects experiencing business failure has on ones personal and professional life. Furthermore the business failure categorisations that emerged from the analysis of the findings were presented and these will be discussed in more detail in the following chapter. Overall it was found that the actions management undertake when faced with the onset of failure might slow down the failure process or escalate it depending on the approach used. Finally the consequences business failure has on ones personal and professional life is very much dictated by an individual’s attitudes and outlooks, the presentation of the business failure categorisations enabled the illustration of these differing attitudes and provided an means of introducing the holistic analysis of the findings.
CHAPTER 7: DISCUSSION

7.1 Introduction

The early chapters of this thesis rationalised and distinguished an avenue for investigation through the identification of literature gaps in the business failure discourse and an examination of the contextual elements pertinent to business failure in the ICT sector. This chapter seeks to discuss the findings of the previous two chapters with direct relation to the extant literature explored in chapter three. The chapter shall commence by addressing the overarching research objective of this study. From the data analysis ‘Failure Process Categorisations’ and a ‘Business Failure Process Model’ are presented and discussed. This chapter will then progress into an examination of the four research questions; research questions which were coined out of the overarching research objective.

7.2 Overarching Research Objective

The primary goal of this chapter is to address the following overarching research objective and thus fulfil the objective this thesis set out to achieve:

How does the process of decline evolve within a firm and what is the causal effect on management actions?

To address the research objective it was segmented into four research questions, each relating to an important aspect of the failure process as they emerged from the literature analysis. The purpose of this chapter is to answer these research questions through an engagement of the research findings and the literature review. A discussion surrounding the research questions will draw out the subtleties and nuances of the failure process. The questions will be discussed in sequential order with each section segmented by research question and within each segment, a thematic structure, similar to the structure of the findings chapter will be adhered to. The research questions are as follows:
Research Question 1
What internal and/or external factors impacted upon the process of decline?

Research Question 2
To what extent was the closure a strategic business decision or was it beyond management’s control?

Research Question 3
What actions do management take during the advancement of business decline?

Research Question 4
How does experiencing business failure affect ones personal and professional life?

### 7.3 Key Research Outcomes

Before summarizing the findings by research question an overview of the key outcomes of the study will be presented, these include the ‘Failure Process Categorisations’ and ‘Business Failure Process Model’ which were derived from the study’s empirical research. Throughout the process of data collection and on analysis of the interview transcripts it became obvious that there were clear demarcations between different groups of interviewees based on their actions and reactions to the failure process. In depth analysis and study resulted in the emergence of four groups of interviewees, which are homogenous throughout and heterogeneous between, these became known as the ‘Failure Process Categorisations’. The ‘Failure Process Categorisations’ segments the entrepreneurs by similarities based on strategic engagement, managerial actions and the impact of the failure, amongst other factors. An extension of the ‘Failure Process Categorisations’ is the ‘Business Failure Process Model’; this model emerged from the empirical research undertaken and offers in-depth details into the nature of failure. These frameworks encompass the findings and emergent themes from the primary data collection with explicit, but not exclusive, reference to the research gaps presented at the end of the literature review. An in-depth analysis of the data led to the ‘Failure Process Categorisations’ and the ‘Business Closure Process Model’ as the most comprehensive methods of fulfilling the overarching research objective.
Analysis of the findings resulted in four categories of entrepreneurs. The four groups are ‘Opportunist’, ‘Pragmatist’, ‘Experimentalist’ and ‘Purist’. Each of these will be discussed and analysed to provide a greater understanding of the various facets of the business failure process. The ‘Opportunist’ takes a cold clinical approach to business; they are ‘ideas rich, time poor’ individuals and are highly strategic entrepreneurs. The ‘Pragmatists’ are decisive and move on quickly from business failure. The ‘Experimentalists’ learn key lessons from their failure experience, they are calm and accepting of their situation, their closure is not strategic business decision but an unavoidable consequence. Finally, the ‘Purist’, these entrepreneurs have a strong emotional attachment to their firms, they are also the group mostly affected by the failure. The following section will explain these categorisations in greater detail.

7.3.1 Failure Process Categorisations

The first group, **Opportunist** comprises of entrepreneurs whose firm closure is a strategic business decision undertaken to allow the individual the freedom to involve themselves in preferable business opportunities. These entrepreneurs are very clinical and cold in their approach to closing down their firm. This group is the most strategic as they do not form emotional attachments to their company and so act in a businesslike manner. The interviewees in this category are ideas rich and time poor, they are already involved in another project or business before they have wound down the initial company. Firms with Opportunistic entrepreneur’s at their helm are halted in their infancy due to better prospects elsewhere. Entrepreneurs in this group are closing their firm so they can fulfil another goal and objective and so on the whole the closure is positive, as such their personal and professional life remain largely unaffected by the experience.

**Pragmatists** are moderately strategic; the key variable being whether the closure is done in a timely fashion or not. The core reason for the closure of the firm is due to the company no longer fulfilling its objectives or there is a more conducive way to achieve their goals. Individuals in this cohort are very aware of
what the want to achieve and what they expect from their occupation. Fast acting, clinical and decisive are all terms associated with these interviewees. These entrepreneurs are quick to move on from the experience and exhibit a sense of relief when the firm is dissolved. The extent to which the actions of the Pragmatist are strategic is greatly dependant on the timing of the exit, where the longer the closure is dragged out the less strategic they are. On the whole ones personal life remains unaffected however in some circumstances there are some professional questions that need to be answered from customers, employees and/or business partners.

**Experimentalists** are the third group, these entrepreneurs closed their firm, not as a strategic move but because it was an unavoidable consequence, however they close it as and how they wish. These entrepreneurs are very calm and accepting of the situation and little is done to attempt to revive the company. New projects are explored but at a slower pace than the previous two groups as these interviewees assess and take stock of the experience and a number of valuable key lessons are learnt and synthesised. Overall ones personal life remains unaffected and ones professional life is impacted to a small degree however there is a general consensus amongst the group that once all debts of the company have been paid then there is no ‘harm’ done. The entire process is viewed as a speculative opportunity to try out an idea in a market that one has easy access to, so whilst the closure process itself has not elucidated much in the way of strategy the entrepreneurs were somewhat strategic in their choice of market entry. The Experimentalists either chose to enter markets that they had familiarity with or they entered new markets tentatively, utilising formal and informal support networks.

Finally, the **Purists**, these entrepreneurs encountered failure in a pure sense of the word, an experience in which their firm closure is beyond their ability to halt. The closure is not strategic but has been drawn out and avoided for as long as possible in the hopes of a turnaround. There is often a retrospective regret that the firm was not closed down sooner to curtail added stress and financial loss.
Experimentalists are strongly attached emotionally to the firm to such an extent that Interviewee 8 described the firm as being like a child. The emotional attachment coupled with stress leads to misguided decision making. In some instances directors get involved in other paid projects (in one case overseas) in an attempt to acquire funds to pump back into the company in an attempt to rescue it, however this further derails the firm as the main driver of the company is not present at the most crucial time. Looking back the entrepreneurs voice a sense of frustration at their lack of foresight however they concur that the experience resulted in them amassing a substantial amount of knowledge and learning that became synthesised after a lot of self reflection and assessing of the situation. Ones personal life is affected by the failure experience due to loans from friends and family being lost when the business goes under, also the experience shakes the interviewees confidence and causes them to look inward and reassess their strengths and desires. Ones professional life is also impinged upon by the failure and the entrepreneurs feel a degree of professional embarrassment, the interviewees voice that leaving debts unpaid is the worst thing about failure and in the cases where the debts have been paid off they are generally satisfied. Figure 7.1 shows a definition of each group and the number of firms from the dataset of thirty that correspond to each categorisation. Categorisations were based on strategic engagement, the managerial actions throughout the failure process and the resultant affect of failure on the interviewees’ personal and professional lives.
Figure 7.1 Definition of each Failure Categorisation

*Categorisation based on strategic engagement, managerial actions, the affect of failure

An overview of the key indicators pertinent to each categorisation is highlighted in Table 7.1
Table 7.1 Failure Categorisation – Key Indicators

<table>
<thead>
<tr>
<th></th>
<th>Triggers of Failure</th>
<th>Strategic Engagement</th>
<th>Management Action</th>
<th>Personal/Professional Affect</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opportunist</strong></td>
<td>Better opportunities elsewhere</td>
<td>Highly strategic</td>
<td>Entrepreneurs already onto their next project</td>
<td>Both are unaffected</td>
</tr>
<tr>
<td><strong>Pragmatist</strong></td>
<td>Firm no longer fulfilling objectives</td>
<td>Moderately strategic</td>
<td>Interviewees bounce back quickly, they are very aware of what they want and how to achieve it</td>
<td>Personal life unaffected, professional life affected to a degree</td>
</tr>
<tr>
<td><strong>Experimentalist</strong></td>
<td>Inexperience, lack of finance, internal disputes</td>
<td>Non-strategic</td>
<td>Calm and accepting, new projects are explored</td>
<td>Personal life unaffected, professional life affected to a degree</td>
</tr>
<tr>
<td><strong>Purist</strong></td>
<td>Clouded judgment, over emotional, lack of finance</td>
<td>Pure failure</td>
<td>Stress and emotion lead to misguided decision making</td>
<td>Both personal and professional life are affected</td>
</tr>
</tbody>
</table>

7.3.2 Business Failure Process Model

The idea of differing failure types has been broached previously in the literature (Miller, 1977; D’Aveni, 1989; Richardson et al, 1994; Moulton et al., 1996). However, a major deficit of these models is the lack of primary data as they are all typologies that were devised through use of data gathered for other purposes, which then have a structure placed upon them. The model developed from this study has emerged by exploring not just the process of decline but also the entrepreneurs’ intentions when commencing the company in addition to how they reacted and recovered from the failure. The ‘Business Failure Process Model’ charts the evolution of the process of decline with respect to each failure categorisation. Pettigrew (1997, p337) defines process as “a sequence of individual and collective events, actions, and activities unfolding over time in context.” Each categorisation follows a different trajectory as illustrated by the various coloured strands on Figure 7.2. Essentially it examines the business
failure process in its entirety. Unlike the previous models presented in the literature, the data used to develop this model has been gleamed from the entrepreneurs’ personal individual experiences.

**Figure 7.2 Business Failure Process Model**

The model in Figure 7.2 depicts the Opportunists on a green trajectory. The Opportunists start a venture and then abandon to pursue a more attractive opportunity it before the initial venture has any real chance of taking off, thus the firm fails soon after. The Pragmatists journey is shown on the diagram in yellow. The Pragmatist began their firm to fulfill a particular objective and as soon as the firm ceases to fulfill that pragmatism the entrepreneur closes it and embarks on another project. The Experimentalist is shown in blue, this entrepreneur holds out in the hopes of a turnaround when the failure process begins to take hold but when as the process worsens they calmly accept the situation and once the firm has shutdown they take some time to reflect on their experience before starting to explore new projects. Finally, Purists, these follow the red line. The Purist entrepreneurs draw out the failure process as long as possible as their emotional attachment to their firm make them reluctant to let it go and so they follow the downward trajectory through to the end. Following the failure the Purists take
time to synthesis the experience and recover from it before pursuing another business venture.

To provide a clearer picture of each group’s failure process the following diagrams (Figure 7.3 to 7.6) will deconstruct Figure 7.2 into its individual components and further discuss the similarities and nuances of each.

**Figure 7.3 Opportunist Failure Process Model**

The Opportunist began their firm at *Position 1* on Figure 7.3. The entrepreneur is ideas rich but time poor and so whilst they embark on this business they are still constantly scanning their environment for a better opportunity to arise. And at *Position 4* a more enticing opportunity arises usually due to the entrepreneur’s use of their existing firm as a vehicle for which to create the circumstances for new opportunities to materialise. At this stage the original firm is abandoned and a short while later the firms demise occurs at *Position 2* the point at which the entrepreneur decides close down the firm. At this stage they are already involved in another venture. *Position 3* indicates the official failure of the firm as it is closed in the legal sense.
The Pragmatist set up their firm at Position 1 in order to fulfil a specific function or to comply with certain legal constraints. When the firm no longer fulfils its desired objectives the entrepreneur quickly moves on from the firm and makes the decision to close the firm (Position 2), get involved in another venture (Position 4) and legal shut down the business (Position 3) all at once displaying their clinical and decisive business manner. For these entrepreneurs practicality is key and once the firm is no longer fulfilling its desired objectives it is quickly removed from the market and the entrepreneur moves on to their next venture immediately.
The Experimentalist begins their firm at Position 1, they set up the firm as a speculative opportunity or to try out an idea on a market they have easy access to. The firm soon begins to experience problems at which point the firm begins its descent towards failure, this occurs at Position 2. The entrepreneur attempts to remedy the problems the firm is facing however the failure continues to evolve and at Position 3 the entrepreneur sees that failure has become inevitable at which point they calmly accept the business’ fate and the firm is closed down. Following on from the failure of the firm the entrepreneur takes time out to reflect on their experience before they embark on a new project (Position 4). The entrepreneurs remain positive and are appreciative of the knowledge they have acquired from the experience.
The Purist starts their firm at Position 1 a strong emotional attachment is formed early on with the business, with the entrepreneur devoting time and energy to ensure its success. However at Position 2 problems begin to emerge and the entrepreneur tries to restore the health of the firm and fix problems. Unfortunately the entrepreneurs’ strong emotions cloud their ability to act strategically and so they continue to invest resources in a firm destined for failure. Eventually the resources expire and the firm must close down, this is Position 3. Following on from the failure the entrepreneur takes time out to recover from their experience and deal with the fallout of the failure both in a professional sense and a personal sense, at this stage a huge amount of insight and knowledge is gained, reflected upon and appreciated. Feelings of stigmatisation are also dealt with and eventually the entrepreneur moves on from the failure experience and begins a new project at Position 4.

Further details of each category’s failure process are provided in Table 7.2 on the following pages.
### Table 7.2 The Process of Business Failure

<table>
<thead>
<tr>
<th>Typology</th>
<th>Process Sequence</th>
<th>Context</th>
<th>Activities</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opportunist</strong></td>
<td>1 → 4 → 2 + 3</td>
<td>The entrepreneur is ideas rich and time poor</td>
<td>• Firm is used as a vehicle to access greater opportunities</td>
<td>• A new venture presents itself from networks made with original firm</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4 The entrepreneur sees a more enticing business opportunity and takes it</td>
<td>• Firm is abandoned in favour of new venture</td>
<td>• All focus and energy is given to the new venture</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 After the entrepreneur gets involved with a new venture the original firm is abandoned for a short time before it is completely given up on</td>
<td>• Firm is closed in a decisive and clinical manner</td>
<td>• Opportunists have moved on before the firm is even closed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3 The firm is officially closed</td>
<td>• Entrepreneur is already involved in another venture</td>
<td>• They have a positive future perspective and some lessons are learnt from the initial venture</td>
</tr>
<tr>
<td><strong>Pragmatist</strong></td>
<td>1 → 4 + 2 + 3</td>
<td>Firm is set up for practical reasons</td>
<td>• Firm is set up to fulfil a specific function or to comply with certain legal constraints</td>
<td>• The firm serves a function and is regarded as a means to an end</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4 The entrepreneur identifies a more conducive way to fulfil their objectives</td>
<td>• The firm is shut down as it no longer fulfils its desired objectives</td>
<td>• Firm is closed due to loss of pragmatism</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 The firm is deemed as no longer fulfilling its pragmatism and thus is no longer required to function</td>
<td>• Entrepreneur immediately moves on from the experience</td>
<td>• Entrepreneur immediately gets involved in another venture</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3 The firm is immediately closed down</td>
<td></td>
<td>• Lessons are learnt from the experience</td>
</tr>
</tbody>
</table>
Within the Process Sequence the → sign depicts progression to another stage and the + sign shows that the stages occurred simultaneously.
7.4 Triggers of Firm Failure

As extensively discussed in the literature review chapter there is a long running debate in the failure discourse centering on the causes of organisational demise. One side of the argument is grounded in classical industrial organisation theory (IO) and organisation ecology (OE) whereby a deterministic role of the environment is assumed, in which it is argued that exogenous factors have the most powerful effect on a firm’s chances of survival. Conversely, the organisational studies (OS) and organisational psychology (OP) approach takes a voluntaristic outlook, whereby as managers are the dominant decision makers in a company it is their assumptions and perceptions that most effect a firm. Thus, management are regarded as being the fundamental cause of firm failure (Mellahi and Wilkinson, 2004).

The research identified ten triggers that began the process of firm closure, six were identified as internally cultivated causes, two were external, environmental contributors and the remaining two were a combination of internal and external causes. Thus it is internal causes within management’s vista of control that may be regarded as the predominant contributor to firm failure. This finding aligns with the Organisational Studies (OS) and the Organisational Psychology (OP) perspective and in particular corroborates the findings of Fredland and Morris (1976); Hansen and Wernerfelt (1989) and Malone (2004) that internal factors have a greater impact on the overall health of the firm than external factors. Moreover, the notion of inadequate managerial experience as a core trigger of the decline process, is cited within the literature by Hambrick and Mason (1984) and Barker (2005). This research extends the survey research on CEO in turnaround situation by Barker (2005) who asserted support for the importance of experience when sensemaking in the face of complex problems. Where this research contributes is through showing where precisely the lack of experience exists, and to that end this study found that of the thirty entrepreneurs interviewed twenty were primarily trained as engineers rather than managers. These interviewees lacked the formal managerial skills required to run a business. Instead they were
equipped with the ability to develop innovative products this drove them to begin a business but lacked the business skills to drive the firm forward thus contributing to its ultimate failure.

The research findings support the work of Argenti (1976), Sheppard and Chowdhury (2005) and Ooghe and De Prijcker (2008, p. 234) all of whom regard management as ‘the origin of most problems’. This study found that the majority of factors, deemed as triggers of firm failure, are internal, managerial controlled issues rather than external, environmental impact factors. Of the two factors presented as external triggers, one was ‘greener pastures’, which basically was a case of the opportunity cost being too great and so the entrepreneur closed the firm in order to pursue other projects deemed more worthy of time and finance. Thus, the internal reaction to the external opportunities was also under managerial control. The concept of greener pastures or opportunity costs was cited by Bates (2005) as being the primary reason for discontinuing a seemingly successful business and this is substantiated by a selection of entrepreneurs involved in this study.

Another key contribution of this research is highlighting and detailing the number of positive factors that triggered the process of decline and ultimate closure of the firm. Whilst firm closure has traditionally been viewed as a negative occurrence it can in some instances as noted by Headd (2003) be the result of circumstance and many may close while successful. However Headd (2003) also acknowledges that data limitations mean this phenomenon is not identified and successful closures become part of the business ‘failure’ statistics. Headd (2003) noted that only one third of new businesses closed under circumstances owners considered unsuccessful. This research supports and extends this observation through extensive examination of the closure process. In particular the Opportunists are a group of entrepreneurs that fall into the category of ‘positive exits’ as they all left their firms to pursue more lucrative ventures and as such can be considered a successful closure.
The second external failure process trigger put forth by interviewees was market implosion. The implosion cited by the interviewees was the after effects of the dot.com technology bubble that took hold in the early to mid 2000’s, in which ‘everyone was running around like headless chickens’ trying to predict and be part of the next big thing (Interviewee 6). However the dotcom technology bubble took place from 1995 to 2000 and the entrepreneurs partaking in this research all set up their firms from 2000 onwards when the markets were still reeling from the bust, then the stock market crash of 2000 to 2002 further hampered the markets stability. So whilst a market implosion did take place, those entrepreneurs who set up their business did so during an obviously tumultuous phase and thus a certain amount of responsibility must be placed on their shoulders. This rationale is akin to one of the core arguments of Argenti (1976) as it is felt that a competent manager is responsible for everything and has done sufficient planning and research to be prepared and expectant when things diverge off course. Conversely it could be argued that such an occurrence demonstrates the overwhelming influence of the environments within which firms are embedded and this perspective fits with organisational ecologists view out forth by Hannan and Freeman (1988). However, fundamentally the view of Bourgeois (1984), a challenger to environmental determinism provides the most appropriate explanation. He argues that the strategic decisions and choices made by management cannot be assumed to be a result of the deterministic forces in their environment because such a rationale would eliminate the need for management, as firms would merely be an autonomous result of its environment with the actions of management being ineffectual.

The two factors regarded as pertaining to both internal and external triggers were ‘timing’ and ‘access to capital’. Whether these belong to the deterministic or voluntaristic ideology is subjective. Timing considered the appropriateness of the timing when launching the product. It also comprised of regulatory changes, and their subsequent effect, and finally the manner in which a firms timing into a venture capital fund effected their chance of receiving investment. In the eyes of OI/OE scholars such as Scott (1992), Slater and Narver (1994) and Anderson and Tushman (2001) regulatory changes and technological change would be seen as
contributors to extreme environmental unrest and thus core endorsers of market instability. Such instability is seen as causing effects on the firm that are beyond the strategic prowess of the entrepreneur to exert influence over. However the entrepreneurs in this study entered the market when it was already massively unstable and the industry was in a period of market flux. Argenti (1976) a strong propagator of the OS/OP perspective argues that only an unanticipated shock for which inadequate notice is given is the only time when failure may not be directly attributed to management. As the entrepreneurs in this study began their business venture at a time when it was clear that the market was in a state of flux they should have been adequately prepared for market turbulence and put in place sufficient measure to counteract the market shocks. By this rationale the market shocks cannot be regarded as unanticipated and thus the cause of failure can be attributed to managerial deficiencies.

Access to capital was presented as a trigger to the unfolding of the failure process through issues such as an inability to obtain adequate funding, failing to properly manage existing income and surprisingly the ability to obtain large sums of financial investment without producing business plans or showing business acumen. Fielden et al. (2000) deemed financial institutions and large organisations as being responsible for erecting barriers that affect the economic stability of new businesses through lack of investment in the businesses. This perspective was certainly corroborated by entrepreneurs in this study who failed to access the required investment from financial institutions or venture capital companies whilst their industry peers had significant financial support behind them. The inverse problem of obtaining huge cash injections without the appropriate budgetary structures in place, was previously warned against by Lovallo and Kahneman (2003) as they expressed concern over the problems arising from entrepreneurs and managers who exaggerate the benefits of a project whilst ignoring the potential pitfalls. Hemraj (2004) also articulated caution for lenders to be more careful and deter over-ambitious projects. Perhaps it was this feeling of moral responsibility on behalf of lenders that led to entrepreneurs encountering difficulties when attempting to raise finance. It may also explain
why most entrepreneurs that attempted to access capital chose to approach venture capitalists rather than lending institutions.

It was noted by Wiesenfeld et al. (2008) that networking is a tool that may be used to enable entrepreneurs to bounce back from their failure experience; this was strongly corroborated and extended upon by these research findings. Networking was even cited by a selection of interviewees as a trigger for the process of closure as some entrepreneurs used their business as a means of building their social capital and tapping into specific networks, they then choose to close their initial firm and embark on future business ventures with members of their new network. Additionally De Faoite et al. (2004) discussed how Irish entrepreneurs in particular favour informal support networks over formal support networks, this was also apparent from the findings of this research as the interviewees relied more on their personal and professional friends with formal support networks being deemed overly bureaucratic.

Table 7.3 Summary of the Triggers of Firm Failure

<table>
<thead>
<tr>
<th>What the Research Identified as Key Triggers of the Process of Firm Failure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal</strong></td>
</tr>
<tr>
<td>• Lack of Formal Managerial Experience</td>
</tr>
<tr>
<td>• Market Research</td>
</tr>
<tr>
<td>• Narrow Focus Opportunism</td>
</tr>
<tr>
<td>• Commitment to the Venture versus Emotional Over-commitment</td>
</tr>
<tr>
<td>• Leadership</td>
</tr>
<tr>
<td>• Pragmatism Action by Entrepreneurs</td>
</tr>
<tr>
<td><strong>External</strong></td>
</tr>
<tr>
<td>• Greener Pastures</td>
</tr>
<tr>
<td>• Market Implosion</td>
</tr>
<tr>
<td><strong>Intersection of Internal and External</strong></td>
</tr>
<tr>
<td>• Timing: Market and Personal Perspective</td>
</tr>
<tr>
<td>• Access to Capital</td>
</tr>
</tbody>
</table>
Core Discussion Points

- Internal causes are more widely cited than external causes as being triggers of the failure process
- The majority (20 out of 30) of interviewees were engineers with little or no formal management training
- Analysis shows that causes of business failure in this study are predominantly down to managerial decisions
- Networking: the utilisation of the start-up firm as a resource or tool to gain access to industry peers and likeminded individuals and thus access to better opportunities
- Positive factors triggered the process of decline, such as:
  - finding alternative more conducive ways to achieve goals
  - finding better opportunities elsewhere
  - closing the firm as it had fulfilled the purpose for which it had been commenced

Contribution to Theory and Knowledge

- Findings further strengthen the OS/OP perspective that internal factors are more dominant than external factors in causing business failure (Fredland and Morris, 1976; Hansen and Wernerfelt, 1989; Malone, 2004)
- Management decisions were found to be a key contributor to business failure (Hambrick and Mason, 1984; Barker, 2005; Argenti, 1976; Sheppard and Chowdhury, 2005; Ooghe and De Prijcker, 2008)
- Positive factors also trigger the process of decline and ultimate failure of a firm, thus providing strong support for the concept of a ‘positive exit’ (Headd, 2003)
- Failure triggers that intersected at internal and external factors were introduced. These were ‘timing’ and ‘access to capital’, these highlight the potential subjectivity of the voluntaristic and deterministic perspectives and emphasises the importance of a holistic approach to business failure research (Bourgeois, 1984)
- The importance of networking extends far beyond the life of a firm and is an important tool for overcoming failure stigmatization and
recovering from business failure (Wiesenfeld et al., 2008, De Faoite et al., 2004)

7.5 Strategic Engagement

An important facet of firm failure is the concept of positive exits. Whilst firm closure is traditionally regarded as a negative occurrence it can, in certain situations, as noted by Headd (2003), be the result of circumstance, and many firms may close while successful. It an effort to ascertain whether this was the case for this dataset of entrepreneurs, research question two explored whether the closure was a strategic business decision or whether it was beyond management’s control. The groups range from highly strategic, with clear goals and intentions to a total absence of strategy, clarity and foresight. On analysis of the findings three different levels of strategic employment were identified, ‘highly strategic’, moderately strategic’ and ‘non-strategic’ and one level, far removed from any strategic initiatives which was labelled ‘pure failure’. As discussed in chapter five the level of strategic engagement was found to operate on a continuum. The continuum (Figure 7.7) ranged from non-strategic to highly strategic and also pure failure on the extreme left as these entrepreneurs not only did not act strategically but their actions actually further damaged their position.

Figure 7.7 Strategic Continuum
The four strategic engagement categories also map onto the four entrepreneurial groups; this relationship is depicted and further discussed below.

<table>
<thead>
<tr>
<th>Opportunist</th>
<th>→</th>
<th>Highly Strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pragmatist</td>
<td>→</td>
<td>Moderately Strategic</td>
</tr>
<tr>
<td>Experimentalist</td>
<td>→</td>
<td>Non Strategic</td>
</tr>
<tr>
<td>Purist</td>
<td>→</td>
<td>Pure Failure</td>
</tr>
</tbody>
</table>

The level of strategy employed was found to be an inverse relationship to the level of emotional attachment felt for the firm. This relationship is depicted in Figure 7.8. The highly strategic opportunists are cold and clinical in their approach to business they do not form emotional attachments to their firm. They are constantly scanning their environment for better business opportunities to present themselves and they waste no time in pursuing better opportunities if and when they materialise. The moderately strategic pragmatist is decisive and is already onto their next project as soon as the company is no longer fulfilling its objectives, or they discover a more conducive way to achieve their goals. These entrepreneurs are highly aware of what they want to achieve and what they expect from their occupation. The non-strategic experimentalist does not engage strategy when their firm is negotiating market exit. The closure is unavoidable however management do have the opportunity to close it as they see fit. These entrepreneurs spoke of the business venture with gambling terms such as “taking a punt” (Interviewee 28); this illustrates the lack of strategic engagement.

However, these entrepreneurs are emotionally attached to their firm as they are reluctant to walk away from it even when aware that its failure is inevitable, more surprisingly they do not engage in activities that are likely to reverse the failure process and as such may be considered non-strategic, yet emotionally attached. The non-strategic entrepreneurs utilised the experience as a steep learning curve. The pure failure purists are entrepreneurs who have avoided failure and drawn it out for as long as possible in the hopes of a turnaround. Not only were these individuals lacking in strategy they actually caused further harm to their situation by letting stress and emotions cloud their judgment and misguide their decisions.
Figure 7.8 Strategic Engagement versus Emotional Attachment

7.5.1 Opportunist → Highly Strategic

The group displaying the highest degree of strategic competence was the Opportunists. Their strategic foresight was demonstrated through their constant outward environmental scanning for better opportunities to arise and when they did arise the entrepreneurs had the strategic prowess to extract themselves from their current business obligations in order to pursue more attractive prospects. This activity captures the essence of Mintzberg’s (1987) concept of strategy as a fluid, emergent process as interviewees took stock of surroundings, and then reacted in a strategic manner to what they perceived as a better opportunity. The activities of these interviewees highlight the stark difference between adhering rigidly to a deliberate strategy (i.e. continuing with the initial business and taking a blinkered approach to any occurrence that may steer one of course) and adopting an emergent approach that allows for one to react to changes in the environment. Cardon et al. (2011) discuss the importance of context, in particular
entrepreneurial networks and resources and their respective influence on firm success thus this study has developed this observation and provided empirical evidence in which to ground it in.

7.5.1.1 Entrepreneurial Conjectures and its Impact on Opportunists

The Opportunists strategic instinct to conduct environmental scanning for more desirable opportunities was discussed by Shane and Venkataraman (2000) who argued that a performance advantage over other firms is not a good measure of entrepreneurial performance because a performance advantage may not compensate for the opportunity cost of other alternatives. Thus when Opportunists are faced with an appealing business prospect the exploitation of the prospect requires the entrepreneur to believe that the expected value of seizing the competing opportunity will be sufficiently large to compensate for the opportunity cost of other alternatives (Shane and Venkataraman, 2000). The method in which Shane and Venkataraman (2000) discuss the strategic manner in which entrepreneurs assess (or should assess) opportunities in their environment is precisely the way the Opportunists in this research study approached their situation; whereby “the decision to exploit an opportunity involves weighing the value of the opportunity against the costs to generate that value and the costs to generate value in other ways” (Shane and Venkataraman, 2000, p. 223). Thus the Opportunists chose to pursue the venture with the lower opportunity cost and this behaviour corresponds to previous entrepreneurial research (Amit, Mueller, and Cockburn, 1995; Reynolds, 1987). Burgelman and Grove (2007) argue that rule-change strategic actions are often unplanned and dependent upon strategic recognition of an opportunity when it arises in a fortuitous way. The outlook taken by Opportunists is the opposite of strategic inertia as explored by Burgelman (2002) whereby one gets locked into their business and have difficulty exploring and exploiting new business opportunities not directly related to the initial business. Gilad et al. (1987) believe that in order to recognize an opportunity one needs to have prior information that complements with the new information and this in turn triggers an entrepreneurial conjecture. Furthermore Shane and Venkataraman (2000) noted that prior entrepreneurial
experience increases the exploitation of entrepreneurial conjectures due to reduced learning requirements. Opportunists are well placed to take strategic advantage of such conjectures, they have taken the initial steps and created a company and so are aware of the investment required in terms of time, finance, etc., also they have begun to network and explore and synthesise new ideas and concepts with a new cohort of likeminded individuals and finally they constantly outwardly scanning the environment for new opportunities. As such Opportunists are the epitome of those best placed to recognize and strategically exploit entrepreneurial conjectures as they present themselves.

7.5.2 Pragmatist → Moderately Strategic

Individuals who set up a business for practical reasons but closed it down when it ceased to fulfill its pragmatism populate this group. Thus the intention of the founder is an important factor to consider when determining the strategic nature of the business exit. Intentionality on the entrepreneur’s part is a prerequisite for firm inception let alone success. As Shaver and Scott (1991, p. 35) state “people simply do not exert themselves by accident”. Individual entrepreneurial intent has been explored in numerous studies (Davidsson, 1995; Francis and Banning, 2001; Frank and Lüthje, 2004; Hmieleski and Corbett, 2006; Kennedy et al., 2003) and is likely to remain an important variable in understand entrepreneurial motivations at play when individuals choose to exploit particular business ventures (Thompson, 2009). Bygrave (1989) applied chaos theory to entrepreneurship and noted that organizational founding is a discontinuous change. Furthermore Shaver and Scott (1991) agree that it is unlikely that organizational founders would see their current organization as one achievement but argue that it is far more likely that it is the result of multiple events and occurrences that paved the way to where they are today. It is recognized in the literature (Shaver and Scott, 1991) that the discontinuous creation of a new business is also preceded by discontinuous events each of which has a separate outcomes, these outcomes may be identifying a market niche or establishing a company etc. In this study the Pragmatists utilized their firm to achieve a specific goal and once that goal was achieved they closed down the firm and began their
next venture, this is indicative of the discontinuous change explored by Bygrave (1989) and Shaver and Scott (1991).

**7.5.2.1 Timing and its Relevance to the Pragmatist**

There is a time dimension to failure, as outlined by Chowdhury and Lang (1993). Furthermore Dillon and Tinsley (2008) posit that the sooner management realise what is going on and take steps to remedy the problem, the better the firm’s chances of survival. It has also been suggested by numerous academics (Weitzel and Jonsson, 1989; Cannon and Edmondson, 2005) that failure progresses through chronological phases and if these phases are identified and remedied in time then catastrophic failures can be avoided. However the argument can also be made that if the onset of the failure process is identified early on and the decision to exit is made in a timely fashion then the effects of the failure can be minimised. Early identification allowed the Pragmatists to invoke a degree of strategy when engineering their firms exit from the market. Thus, this group of entrepreneurs also fulfil the business failure definition crafted by Ulmer and Nielsen (1947), termination to prevent further losses. The Pragmatists reacted quickly and decisively and so avoided failure in its purest form - bankruptcy. Garrod and Miklius (1990) believe that the timing of exit depends on the persistence in trying and this is true of the Pragmatists. Whilst they enjoyed the benefits of a timely exit, in some instances had they persisted with their respective firms they could have reaped future benefits for their labours, this is particularly true of Interviewee 5 who believes had they persisted with their firm they would be a multi-millionaire today. However all the entrepreneurs in this group prided themselves on their early acceptance of the situation and none of them felt any regret over their decision to close their business in such a timely fashion.
7.5.3 Experimentalist → Non Strategic

This group is comprised of individuals who had easy access to a market and began a company to try out new ideas/products but wound it down when they were satisfied they had exploited the products/services capabilities to the best of their ability. However the failure of the firm was inevitable but the entrepreneurs are afforded the ability to terminate the firm as and how they wish. This group of interviewees view the experience as a chance they took which may or may not pay off and if it failed to take off they would still have gained experience from it. It is the ease of access to the marketplace that encouraged these individuals to experiment with entrepreneurship. Basu (2004) research suggests that ease of entry may have a negative effect on the levels of determination and initiative shown by some groups of entrepreneurs. This is likely to be the case for this group of entrepreneurs also as they describe their transition into business as a gamble and a speculative opportunity. Furthermore, there is an acknowledgement by numerous Experimentalist entrepreneurs that they were not focused or committed enough to the venture, this admission provides further support for Basu’s (2004) tentative observation.

7.5.3.1 Lack of Experience and the Experimentalist

The Experimentalists lack of strategy is mainly derived from their lack of experience. The term Experimentalist is attributed to this group because the entire process is an experimental encounter with entrepreneurship, one which whilst unsuccessful in the short term was successful in the long term because following on from the failure they went on to startup another firm successfully. Given that the Experimentalists were exploring new ground and remained calm, rational and accepting of their firms downfall and still were willing to start up a firm subsequently bodes well for the future as they acquired skills which they applied in their following business projects. This approach to entrepreneurial learning and strategizing allows for a tailored form of learning which is individual, as Kriegesmann at al. (2005) argue it is a form of learning that cannot be taught merely attained through practice. Furthermore Locke and Taylor
(1996) conclude that how one deals with setbacks can have a vital influence on subsequent performance as it establishes how one copes in threatening, stressful situations. The fact that the Experimentalists remain calm and rational throughout the process of failure despite not engaging a strategy bodes well for future entrepreneurial exploits as they can implement their newly acquired skills and utilize their solid coping mechanisms in the face of the uncertainty that’s synonymous with entrepreneurship.

7.5.4 Purist → Pure Failure

The emotional attachments felt by the Purists for their respective firms was intoxicating. Interviewee 8 likened his firm to a child and this sense of protection resulted in an inability on the entrepreneurs part to let go of their struggling firms and so they continued efforts to rescue their company’s despite ongoing negative outcomes. The concept of an entrepreneur viewing their company as a progeny was examined at length by Cardon et al. (2005) as they charted how extreme devotion by an entrepreneur to their business resulted in self-sacrifice and delayed gratification. Cardon et al. (2005) postulate that excessive attachment of this kind is regarded as insecure attachment and it results in overcontrol or overprotection of the firm to such a degree that the entrepreneur is unable to let go of the firm when it is time to concede that it is a failure this standpoint is complemented by this research study. The driver of the intense emotional attachment expressed by entrepreneurs towards their firm stems from passion.

7.5.4.1 Passion and its Impact on Purists

Passion is traditionally viewed as a positive emotion, and is strongly associated with entrepreneurship (Smilor, 1997; Chen et al. 2009), according to Chang (2001, p.32) it is a right and a competitive advantage that can be “controlled, cultivated and directed to achieve specific ends”. Essentially Chang (2001) argues that passion should be the foundation of the business. This research study noted a stark difference in the types of passion exhibited by entrepreneurs
between groups and its resultant effects on strategic developments. Opportunists were passionate about the entrepreneurial process whereas Purists had directed their passion towards their particular venture. This in turn led to different degrees of emotional attachment felt by the entrepreneurs towards their firms. According to Cardon et al. (2005) entrepreneurs often describe their businesses as their babies and express a personal connection and identification with their business to the extent that the firm is seen as an extension of themselves. This level of involvement was exhibited by the Purists and in business emotional attachments can be difficult to break (Burgelman (1994). For the Purists the intensity of their passion became destructive, their attention was so embedded in making their firm succeed that they failed to regularly assess their situation and invoke a suitable strategy. Parallels to this sort of behaviour are drawn from Cardon et al.’s. (2005, p.38) work were they compare the misguided utilisation of passion as being similar to a terrorist whose intense “passionate beliefs in one’s calling indicates that means justify the ends and everything is sacrificed for the cause, including lives if necessary”. This form of destructive passion is indicative of the Purists, their escalated commitment to the firm led them to set aside all other concerns and all other relationships in order to passionately pursue that single goal (Cardon et al. 2005). As achieving the goal of corporate success begins to slip further away the more aggressively they seek to pursue it. The negative effects of passion was demonstrated by Interviewee 7; when the interviewee’s firm began to experience difficulties the entrepreneur took the decision to move to Spain for 3 weeks of the month, leaving their spouse and children in Ireland in an effort to access enough cash to repatriate back to the Irish business. The result of this decision was that both the Irish firm and the Spanish project failed and the interviewee put huge stress on their family. Hindsight caused the entrepreneur to see the error of their ways as a misguided final attempt to rescue their ailing firm but at the time blinded passion made this decision appear to be a strategic decision although it was more akin to Cardon et al.’s. (2005) entrepreneurial terrorism.

Passion and its impact on strategy for the Opportunists is markedly different. As previously stated the Opportunists were more passionate about the
entrepreneurial process rather than attaching their passion on their firm, this allowed them to steer their passion in a strategic manner. Basically the Opportunists enjoyed the journey whereas the Purists were fixated on the destination. Whilst Opportunists displayed a positive form of passion it was also passion that heralded the end of their firm as the entrepreneurs passion for innovative ideas and search for like minded people to work with caused them to constantly scan the environment and seize opportunities when they arose. Cardon et al. (2005) called for more investigation into the questions surrounding passion and the manner in which it can be enabling for some entrepreneurs whilst it is debilitating for others and this research has added to this literature as it provides active examples of the various strains of passion in entrepreneurship.

Table 7.4 Summary of Strategic Engagement

<table>
<thead>
<tr>
<th>Level of Strategy involved in Business Failure and Respective Closure</th>
<th>Instigators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Highly Strategic-</strong></td>
<td><strong>Moderately Strategic - Pragmatists</strong></td>
</tr>
<tr>
<td>Opportunists</td>
<td>• Hedging Ones Bets</td>
</tr>
<tr>
<td>• Strategic Choice</td>
<td>• Bureaucracy</td>
</tr>
<tr>
<td>• Networking</td>
<td>• Gap in the Market</td>
</tr>
<tr>
<td>• Displayed Opportunism</td>
<td></td>
</tr>
<tr>
<td><strong>Non-Strategic-</strong></td>
<td><strong>Pure Failure - Purists</strong></td>
</tr>
<tr>
<td>Experimentalists</td>
<td>• Financial Distress</td>
</tr>
<tr>
<td>• Speculative Chance</td>
<td>• Emotional Investment</td>
</tr>
<tr>
<td>• Loss of Momentum</td>
<td>• Internal Disputes</td>
</tr>
<tr>
<td></td>
<td>• Environmental Influencers</td>
</tr>
<tr>
<td></td>
<td>• Engaged in Contracting</td>
</tr>
</tbody>
</table>

**Core Discussion Points**
• Findings provide significant advancement in understanding the various
degrees of strategy utilised by different groups of failed entrepreneurs

- The level of strategic engagement relates strongly to the strength of emotional attachment felt by the entrepreneur towards the firm
- The more emotionally involved with the firm the entrepreneur is, the more reduced their ability to act in a strategic manner and thus the more retrospective regret they expressed at having unproductively prolonged the firm’s life
- The intention with which the firm was conceived also dictates the level of strategy engaged at closure

**Contribution to Theory and Knowledge**

- Opportunists are a type of entrepreneur that exploit entrepreneurial conjectures (Amit, Mueller, and Cockburn, 1995; Gilad et al., 1987; Shane and Venkataraman, 2000; Burgelman and Grove, 2007)
- Pragmatists embody discontinuous change and build on the arguments of noted academics (Weitzel and Jonsson, 1989, Cannon and Edmondson, 2005) that early identification of problems in a firm can allow for a strategic exit
- Experimentalists highlight that an ease of access to a market can have a negative effect on determination and initiative, furthermore failure can be utilised as a tailored form of learning (Basu, 2004; Kriegesmann et al., 2005; Locke and Taylor, 1996)
- Purists show that extreme devotion to a firm can impact decision making in a negative manner and destructive passion and entrepreneurial terrorism (Cardon et al., 2005)
- Strategic engagement differs for each group of entrepreneurs and the strong emotional involvement is negatively correlated to strategy and strategic engagement (Burgelman, 1994; Cardon et al., 2005)

### 7.6 Management Action

Having established in research question one that internal factors rather than external factors were the predominant causes of business failure this research
question shall focus on the actions management undertook to halt the failure process. As internal factors are largely controllable by management it may be argued based in this study that bad management is the primary root of business collapse. This sentiment mirrors the findings of Kennedy (1985), Haswell and Holmes (1989), Hambrick and D’Aveni (1992), Chowdhury and Lang (1993), Beaver and Jennings (2005) Finkelstein (2005) and Ooghe and De Prijcker (2008). The actions undertaken by entrepreneurs as a means of reversing the onset of failure include attempts to access finance; a decisive, proactive initiative taking attitude; a counter intuitive choice to engage in contracting; an intensified marketing push and a reliance on ones network. These shall now be discussed in greater detail.

7.6.1 Access Finance

An attempt to access further capital to plough back into the ailing firm was action undertaken by the interviewees faced with failure. Fielden et al. (2000) posit that financial difficulties and the attitudes of banks towards new business owners are the main barriers to successful enterprise creation. However the entrepreneurs in this study attempting to obtain additional financial support for their enterprise chose to contact venture capital companies rather than banks perhaps signifying the long term cultural dichotomy between banks and new businesses in Ireland.

7.6.2 Decision Making

According to Welpe et al. (2012) fear reduces exploitation and minimizes the relationship between evaluation and exploitation; conversely joy and anger increase exploitation and magnify the relationship between evaluation and exploitation. Furthermore Finkelstein (2005) argues that desperation management can lead companies to jump from one solution to another, which ultimately do more harm than good and never get it right in the process. This concept is characterised by the fact that a selection of members from
Opportunists, Pragmatists and Experimentalists groups exhibited decisiveness but no entrepreneur from the Purist group was decisive. Lovallo and Kahneman (2003) do not believe that the high number of business failures is best explained as the result of rational choices gone wrong, they see it as a consequence of flawed decision making. Lovallo and Kahneman (2003) and Barker (2005) assert that people take credit for positive outcomes and attribute negative outcomes to external factors, no matter what their true cause, however this research refutes this claim as interviewees were quick to accept a portion of the blame and displayed decisive action in overcoming the failure.

Bounded rationality was examined by Hambrick and Mason (1984), they argued that peoples decision making processes are guided by their past experiences and if people have been with an organisation for a while then the organisation itself will influence their decision making process. This was not directly apparent for the entrepreneurs in question as their firms were young and had little historical frames of reference for which to guide them with. However the majority of interviewees said the experience acquired from the business venture failure in question would inform subsequent business decisions thus indirectly corroborating the findings of Hambrick and Mason (1984). It was also argued by Hambrick (1984) that if strategic choices have a large behavioural component then they reflect the idiosyncrasies of the decision maker to some extent, this was reflected in the different personality types of the entrepreneurs. Horn et al. (2005) posit that taking the biases out of decision-making is difficult, this research study concurs with this perspective as the interviewees decisions were influenced by their personalities. This study showed that the four entrepreneurial groups displayed various personality traits and those traits can be linked to their decision-making process and thus in turn their consequential managerial action. These are highlighted in Table 7.5.
| **Opportunist** | Positive → Ideas rich, time poor  
Motivated → Involved in multiple projects at once  
Infectious personality → Great networker | • Highly Strategic  
• Moves before Firm Officially Fails  
• Clinical Action  
• Proactive |
|-----------------|-------------------------------------------------|--------------------------------------------------|
| **Pragmatist**  | Practical → Experience relief when firm is closed  
Decisive → Fast acting, clinical approach to business  
Great awareness → Involved in new project immediately after closure | • Moderately Strategic  
• Decisive  
• Diligent  
• Efficient  
• Moves on Immediately |
| **Experimentalist** | Inexperienced → Firm lacked strategic vision  
Calm → Synthesis new lessons then gently explore new projects  
Accepting → Only a little is done to revive firm | • Non-Strategic  
• Accepting  
• Eager for Skills Acquisition  
• Reflect and Learn from Experience |
| **Purist**      | Emotional → Misguided decision making  
Stressed → Exhibit a sense of frustration  
Resilience → Substantial amount of learning amassed and acknowledged | • Destructive Emotions  
• Firm is seen as an extension of self  
• Takes Time to Recover from Failure |
7.6.3 Contracting

Two interviewees, both of which were Purists made the misguided decision to engage in contracting when their firm was failing as a means of obtaining additional cash to put back into the company. However going contracting meant abandoning the firm at a crucial stage in its lifecycle and the choice had a negative effect on the firm. This is a prime example of fear reducing exploitation and minimizing the relationship between evaluation and exploitation as discussed by Welpe et al. (2012). The choice to go contracting was made by both entrepreneurs at a time of grave pressure and extreme financial distress that in turn impaired their ability to react strategically. An action such as this is a perfect example of an, ‘error-amplifying decision trap’ discussed by Schulman (1989) whereby a poor response to a problem merely results in exacerbating the issue rather than rectifying it. Similarly such a response is reminiscent of the findings of Mellahi and Wilkinson (2004) who argued that management run the risk of making poor choices under stressful situations and such actions may place the firm in a worse position strategically rather than strengthen the case for survival. Furthermore this behaviour adds to the findings of Barker (2005) who argue that the actions and perceptions of a firm’s principal decision-maker are the fundamental cause of organizational failure. As Beaver (2002) noted there is no category of unemployment called out of work entrepreneurs and so the socio-psychological pressures to ride out the current difficulties are immense, this notion of maintaining others perception of interviewee success was important for these entrepreneurs and so acted as a catalyst for the extreme behaviour.

7.6.4 Marketing Push

Intensifying marketing action was the activity of choice for a selection of entrepreneurs. More specifically, targeted marketing campaigns; increased online presence and an exploration of the potential for entering new markets were all considered. Unfortunately these failed to reverse the downward trajectory that the firms were on. Friedmann (2003) maintains that continuing or increasing presence at industry tradeshows and exhibitions, can convince customers to
purchase despite economic difficulties. However this is not substantiated by this research as entrepreneurs went out and did huge tradeshows in addition to sales and marketing and still failed to attract a loyal following. Maintaining marketing initiatives is also regarded as an essential activity to engage in by Pearce and Michael (2006) especially in the face of declining sales, however this activity did little to prolong the life of the firms who engaged in it in any form and so this study fails to corroborate these scholars’ recommendations.

7.6.5 Networking

A reliance on one's personal and professional network was explored by a number of the interviewees. This activity is reminiscent of the observation of Cunningham (1997) who regarded an organization's death as a process of disbanding and reconnecting in response to shifting goals and events. The work of Gilmore et al (2004) and De Faoite (2004) also highlighted the importance of networks for small firms in particular. Additionally Fielden et al (2000) believe that the lack of a business network compounds problems for firms. The finding's of this study affirms the findings made by these academics and further substantiates the contention that networking is an important activity for entrepreneurs to engage in. Whilst networking alone did not stop the interviewees' firms from closing down engaging ones network did reduce the side effects of failure through supplying entrepreneurs with new opportunities to subsequently get involved in and further lines of inquiry to exhaust when trying to prolong the life of the firm.

7.6.6 Other Actions

A less orthodox approach was taken by one interviewee who coerced his partner out of the firm by falsifying a deal. Once again this mirrors the sentiment that business failure is about disbanding existing relationships, explored by Cunningham (1997). The stress of failure can also lead to fractured relationships that in some cases are irreparable given the emotionally charged nature of the
situation. The interviewee in question was a Purist and so was emotionally involved with the firm. However positive action by another entrepreneur led to the failed firms product being subsumed into the activities of another firm under the same owner and so whilst the firm is closed its legacy has been rescued to some extent in the form of the still manufactured product. The entrepreneur pursuing this action was a Pragmatist. The actions of these two entrepreneurs once again ignites the debate about emotions and perceptions and their resultant effect on the behaviours of entrepreneurs in varying situations as discussed at length by Cardon et al. (2012), Shepherd et al., (2009a) and Welpe et al. (2012).

Table 7.6 Summary of Management Action

<table>
<thead>
<tr>
<th>Actions Management Take During the Advancement of Business Decline</th>
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</thead>
<tbody>
<tr>
<td>• Access Finance</td>
</tr>
<tr>
<td>• Contracting</td>
</tr>
<tr>
<td>• Networking</td>
</tr>
<tr>
<td>• Decision Making</td>
</tr>
<tr>
<td>• Marketing Push</td>
</tr>
<tr>
<td>• Other Actions</td>
</tr>
</tbody>
</table>

Core Discussion Points

• The actions undertaken by the entrepreneurs and the way the interviewees approached the failure process
• Distinctions can be made between different cohorts of entrepreneurs through an examination of their attempts to revive the firm

Contribution to Theory and Knowledge

• Venture Capital firms were engaged as a potential source of finance rather than banks (Fielden et al., 2000)
• Interviewees that were decisive in their actions were more effective at warding off the negative effects of failure (Lovallo and Kahneman, 2003; Finkelstein, 2005)
• The Purists provided the perfect example of ‘an error-amplifying decision trap’ with their decision to go contracting (Schulman, 1989)
• Increased marketing as a means of reversing the downward trajectory was not seen as effective (Friedmann, 2003; Pearce and Michael, 2006)
• Relying on ones network when faced with failure is a positive action and reduces the negative effects of failure (Gilmore et al., 2004; De Faoite, 2004; Fielden et al., 2000)

7.7 Affect of Failure

The experience of business failure had a varying degree of impact on entrepreneurs’ personal and professional lives in both positive and negative forms. These affects will be discussed in this section with reference to the findings and in particular the findings alignment with existing literature. The negative consequences of failure emerged from stigmatisation and the personal sense of shame whilst positive aspects presented themselves in the form of learning and experience attainment.

7.7.1 Stigmatisation and Networking

The psychological implications in question stemmed from feelings that the failure of the business would reflect negatively on the interviewee’s character and as such hinder them professionally and ultimately personally. However one of the most interesting outcomes of this research surrounds the issue of stigmatization. Ireland and its culture have long been regarded as being one in which business failure results in stigmatization and shunning of the individual associated with firm demise. The majority of interviewees questioned felt Ireland was notoriously bad for business failure stigmatization, however very few of the entrepreneurs had actually personally experienced it. Interviewee 15 then provided an informative and explanatory take on the issue by arguing that sometimes people’s reaction to ones failure is based on ones own reaction. Such a viewpoint is once again reminiscent of Atkinson and Feather’s (1996) observation that success-oriented persons tend to focus on the potential pride in accomplishment whereas failure-threatened individuals in the same situation focus on how they may experience shame due to failure when faced with a particular task. This research extends the observations of Atkinson and Feather
As it provides corroborating data that stigmatization is in fact partly propagated internally by the entrepreneur as a personal reaction to the trauma and shame experienced as a result of the failure rather than being an actual state imposed on the individual by society. However despite stigmatization not being experienced by the majority of interviewees it was a factor that they considered when faced with firm failure. Thorne (2000) argued that stigmatization may inhibit learning from failure due to the negative connotations that may get attached to the entrepreneur as they attempt to make sense of the experience. This was explored by Interviewee 21 whose guilt over the failure was apparent when the entrepreneur compared the interview to being similar to a priest trying to get confess sins. This guilt led the entrepreneur to bury the experience, with no desire to think about it or discuss it again, thus inhibiting learning. The reaction of Interviewee 21 makes further argument for the notion that stigmatization is more a state of mind that one anoints oneself with through the guilt and shame of failure, rather than social rejection inflicted upon one by professional peers and the wider society. However the lack of stigmatization experienced may also arise from the extent of networking that the individuals engaged in.

All interviewees questioned for this study regarded networking as an important part of business and when they experienced failure; their network, through offers of work, and future business ventures, bolstered them. This finding aligns with the work of Wiesenfeld et al. (2008), Fielden et al. (2000) and Gilmore et al. (2004) who contend that a comprehensive social network is important as a means of negating the negative effects of failure. Additionally the interviewees were more reliant on personal and professional friends rather than formal support networks and these findings supports the research findings of De Faoite et al. (2004). An interesting point to note surrounds the concept of schadenfreude, a German term introduced into the business failure literature by Wiesenfeld et al. (2008) explaining the results from observers desires to feel better about oneself by comparing oneself to less fortunate others. Ireland as a nation is strongly regarded by the interviewees as having schadenfreude deeply ingrained in its culture, however on a positive note a number of interviewees felt that things were beginning to change and Ireland as a nation was becoming more tolerant to
business failure and aware of the positive outcome such as experience attainment that can arise from it. Additionally, whilst everyone agreed that schadenfreude, a propeller of stigmatization was commonplace in Ireland it was rarely experienced by the interviewees following their brush with failure. This is due in part to the entrepreneurs strong and diverse network which buffered them from the ill effects of firm failure as their social capital presented them with a favourable forum through which they can defend themselves and reinstate, to some degree, their social standing and mitigate the effects of stigmatization thus echoing the findings of Wiesenfeld et al. (2008).

7.7.2 Learning

One of the more positive differentiations between Purists and the other groups of interviewees is the extent of the learning that Purist entrepreneurs amassed. The arguments of McGrath and Cardon (1997), Stokes and Blackburn (2002) and Schoemaker and Gunther (2006), that the experience of business failure is an important learning tool, is appreciated by the majority of interviewees. Furthermore the expectations of McGrath, (1999) that the failure would act as a catalyst for further economic growth and business development was substantiated by these findings as all interviewees went on to form successful firms after their brush with failure. Additionally, Mason and Harrison (2006) argue that firm closure begins a process of entrepreneurial recycling in which the entrepreneur can channel a portion of their newly acquired time and wealth in addition to their accumulated experience into other, often multiple, entrepreneurial activities with clear economic benefits. Another benefit of failed entrepreneurs embarking on a subsequent business venture stems from the individuals wellbeing as Shaver and Scott (1991) argue that the emotional consequences of repeated failed attempts are less negative than the emotional consequences of declining to try. Additionally Podoynitsyna et al. (2012) posit that the emotional reactions of entrepreneurs to strategic issues change and adapt as they grow from novice to serial entrepreneurs. Furthermore Shepherd et al. (2009a) propose that entrepreneurs who are desensitized to project failure are less committed to subsequent projects. All of these factors combined further
7.7.3 Affect of Failure by Categorisation

According to Cardon et al. (2012) the extreme experience of entrepreneurship and the resultant close bond that forms between entrepreneur and organisation make the entrepreneurial process an emotional journey. Furthermore Cardon et al. (2012) argue that the literature has barely begun to uncover the most interesting facets of entrepreneurial emotion. Cunningham (1997) explored the extent of these emotions and asserts that an organization's death results in many of the same feelings and reactions that humans experience with the loss of a loved one. People are forced to disconnect from established relationships and to reconnect with others and depending on the nature of the bonds this can make the failure process an emotionally charged experience. This research goes some way to probing this topic further and aiding understanding. Firstly according to this study the range and variety of bonds formed by entrepreneurs with their respective companies vary in their intensity and this variance highlights further distinction between the entrepreneurial groups identified. In fact emotional bonding was only apparent in two of the four groups uncovered, namely Experimentalists and Purists. However the effects of these emotions were profound and affect the manner in which the entrepreneurs reacted to the onset of the failure process and their subsequent recovery from the failure. The fact that the two groups which could be considered “positive failures” (i.e. the Opportunists and the Pragmatists) exhibited no signs of emotional attachment to their firms is interesting to note as the literature has recently expressed a need for studies on the emotional process that occurs when entrepreneurs positively exit a venture (Cardon et al. 2012). Perhaps this deficiency of studies examining the emotional processes at play during positive exit arises from the fact that those who are strategic enough to engineer a positive exit are less emotional about their firm and more devoted to the entrepreneurial process itself. It was apparent for these two groups that a sense of attachment to the entrepreneurial process exists rather than a specific attachment to a particular organisation. Once again the following phrase sums up the distinction between the groups: The Opportunists...
and Pragmatists exhibited an enjoyment for the journey or entrepreneurial process whereas the Experimentalists and in particular the Purists were more preoccupied with the destination (i.e. making their current firm successful). The most profound effects of the business failure process on each of the entrepreneurial groups is detailed and summarised in the Table 7.7.

Table 7.7 Affect of the Failure Experience by Categorisation

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunist</td>
<td>• Recovered rapidly from failure with little or no affect on personal/professional life</td>
</tr>
<tr>
<td></td>
<td>• No emotional attachments have been formed</td>
</tr>
<tr>
<td>Pragmatist</td>
<td>• Exhibited decisive action in face of failure and experienced a sense of relief on closure</td>
</tr>
<tr>
<td></td>
<td>• Personal life unaffected however some questions need answering from a professional perspective</td>
</tr>
<tr>
<td></td>
<td>• Interviewees are quick to move on from the experience</td>
</tr>
<tr>
<td>Experimentalist</td>
<td>• Numerous lessons learnt from experience and interviewees calmly accept the failure</td>
</tr>
<tr>
<td></td>
<td>• Personal life remains unaffected and professional life is affected to a degree but there is a general consensus that once all company debts have been paid then there is no harm done</td>
</tr>
<tr>
<td>Purist</td>
<td>• There is an emotional attachment to the firm and a sense of regret is experienced when firm closes</td>
</tr>
<tr>
<td></td>
<td>• Personal life is affected due to loans from family and friends being lost when the business goes under</td>
</tr>
<tr>
<td></td>
<td>• Professional life is affected in some cases profoundly due to the stigma associated with failure</td>
</tr>
<tr>
<td></td>
<td>• A substantial amount of learning is amassed from the experience</td>
</tr>
</tbody>
</table>
7.7.3.1 Opportunist

The Opportunist is the most resilient of the entrepreneurial groups and as such these interviewees bounced back quickly from their failure experience with little or no personal or professional consequences. One of the interviewees described their life as a training ground for becoming an entrepreneur of which, the failed business was part of the training. This sentiment correlates strongly with the concept of failure as a right of passage or an entrance fee for entrepreneurship discussed by Ucbasaran et al. (2006). Another point worth noted about the Opportunists was their infectious, competent personalities. This group of entrepreneurs exuded positive energy and this relates to the outlook and its impact on recoveries and outcomes as explored by Atkinson and Feather (1966) whereby when one is confronted with an important task, success-oriented persons focus on the resultant pride in accomplishment that can be derived from succeeding whereas failure-threatened individuals in the same situation focus on how they may experience shame due to failure.

7.7.3.2 Pragmatist

The Pragmatists are a group of entrepreneurs who take a very practical view on business. Their firm existed as a means of fulfilling a particular objective and once a more conducive way to achieve their entrepreneurial goals is uncovered the firm closes. Thus these entrepreneurs move on quickly from the failure as they already have another project in the pipeline to get started on. These interviewees also like to tie up loose ends and feel a sense of relief when the firm closes. Acceptance was more attainable for the Pragmatists as they have the ability to see a clear delineation between their personal identity and the identity of the firm, thus the closure does not impinge upon their personal identity. These individuals also did not experience stigmatisation. Wiesenfeld et al (2008) posit that when entrepreneurs can identify an avenue to defend themselves and reinstate their social standing they have the ability to mitigate the effects of stigmatization. The Pragmatists ability to remain calm, accepting and rational in the face of failure and immediately become involved in another project was their
way of reinstating their social standing and thus avoid stigmatisation and subsequent schadenfreude. However the interviewees did admit to growing personally through the experience with one interviewee being spurred by the failure process to return to college and obtain a diploma. Professionally the Pragmatist did have to answer some difficult questions from their colleagues and customers to help them understand the reasons behind the failure however the effects of the failure were not long lasting or career crippling. Interestingly regret, an emotion one would strongly associate with business failure was not a feeling experienced by the Pragmatists, this fits with the concept a ‘heroic failure’ or ‘successful failure’ explored by Kriegesmann et al. (2005) whereby the entrepreneurs utilized the firm and the corresponding failure process as a vehicle by which they could tap into their own talents and creative potential and use the information attained in their subsequent business.

7.7.3.3 Experimentalist

This group of individuals was calm, accepting and rational when their firm fails and this personality type is a positive one as the Experimentalists survey and synthesize the failure process and subsequently learn from it. Stokes and Blackburn (2002) see failure as an important source of knowledge acquisition and the fact that the majority of business owners leave business through a revolving door rather than a one-way exit further compounds the importance of learning. It was also a finding of Stokes and Blackburn (2002) that owners believe that the lessons learnt from the closure process better equips them for running businesses in the future. This was also a finding of this study as the interviewees obtained experiential learning that could not be attained in a structured learning environment which has been referred to by Kriegesmann et al. (2005) as a tailored form of learning, as one interviewee highlighted how the failure process bought him closer to his own plan. Ryan (2000) puts forth the argument that serial entrepreneurs view failure as an experience that will make them stronger and bolder to take on new risks in the future, whilst this research did not find any indication that experience failure made the interviewees bolder, with a more risk taking nature it certainly made them stronger and aware of and
confident of their skill set. These findings also corroborate the observations of Barker (2005) who argued that the number and variety of experiences that an individual has affects the way in which an individual reacts and responds in various situations.

7.7.3.4 Purist

It is clear that the Purists were most affected by the experience of business failure and this is related to the emotional attachments that they formed to the business. The attachment also resulted in them putting off the closure of the firm for as long as possible in the hopes of a turnaround however this merely inflicted more emotional and financial pain on the interviewee. Shepherd et al. (2009) have previously stated that failing entrepreneurs’ procrastinate the closing of their firm because they wish to reduce the overall negative emotions that arise from the business failure. Furthermore Pierce et al. (2001) note that when a project fails the failure can lead to a loss of part of a member’s self-identity and this in turn can have dysfunctional consequences. From this research study 7 of the 11 interviewees in the Purist group cited emotional investment as a factor that influenced their approach to their firms exit. Thus it can be gathered that the Purists desire to prolong the life of their firm is a form of self-protection and self-preservation. Furthermore according to Shepherd and Cardon (2009) the greater the levels of psychological ownership and personal engagement an individual has in a project the more likely the failure of the project will result in intense negative emotional reactions.

Shepherd et al. (2009a) declare that when a project fulfils an individuals need for autonomy, relatedness and competence the individual is more inclined to foster feelings of psychological ownership of the project and thus become more personally engaged in their work. When such personal engagement occurs failure of the venture is likely to lead the entrepreneur to feel they have lost something important. This behaviour was exemplified in this research by Interviewee 22 in particular who despite multiple business failures incurred whilst attempting to
realise his product, the entrepreneur was still embarking on another venture in an effort to bring the idea into fruition. In many cases the loss may be the severed emotional bond to the firm, and/or the breakdown of relationships and in more extreme cases it may be the loss of part of their individual identity (Shepherd et al., 2009a). Additionally Royer (2003) argue that organizational members have an attachment for ventures that they passionately believe in and subsequent setbacks are felt as an emotional blow. The extent of the emotional attachment exhibited by the Purists is apparent from the reference by Interviewee 8 likening their firm to a child. This sentiment corroborates Shepherd et al’s. (2009a) concept of the firm as an extension of ones individual identity. Cardon et al. (2005) and Dodd (2002) highlight that is not uncommon for entrepreneurs to refer to their venture as their “baby”, however DeTienne (2010) argues that in doing so it indicates that exit is more than the relinquishment of equity ownership, it also has psychological implications.

Table 7.8 Summary of Affect of Failure

| Affect Experiencing Business Exit has on Ones Personal and Professional Life |
|---------------------------------|---------------------------------|
| **Opportunist → Recovered**     | **Pragmatist → Decisive Action, Relief** |
| **Rapidly**                     | **Learning**                     |
| • Positive Proactive Perspective | • Acceptance                     |
| • Nonchalant Attitude to Closure | • Recovery                       |
| • Infectious Competent Personalities | • Professional Repercussions    |
| • Entrepreneurial Process Enthusiast | • Regret                        |
| • Experience Building           |                                  |
| **Experimentalist → Lessons Learnt** | **Purist → Substantial Impact Experienced** |
Core Discussion Points

- Ones rate of recovery from the firm collapse is greatly related to the failure process experienced.
- The type of lessons learnt and the extent to which they are taken onboard is directly related to the type of failure process journey experienced.
- Feelings of regret towards one's handling of the failure process is also contingent on the failure process underwent.
- The degree to which the firm closure impinged upon one's personal life is once again contingent on the failure process trajectory.
- The perception exists that the negative stigmatisation associated with business failure in Ireland is changing.
- Professional repercussions are alleviated considerably if the entrepreneur has a comprehensive social network.
- Stigmatisation may be propagated internally by the entrepreneur as a personal reaction to the trauma and shame felt as a result of the failure rather than being an actual state imposed on the individual by society.
- The harder the fall the greater the feeling of achievement at overcoming the failure.

Contribution to Theory and Knowledge

- Stigmatization is likely to be a product of entrepreneurs trauma, a internal reaction to their firms failure rather than a state imposed by society (Wiesenfeld et al., 2008).
- Guilt and shame due to failure inhibit learning from the experience (Cardon et al., 2011; Baumeister, 1996).
- A strong social network negate some of the negative affects of failure.
(Gilmore et al., 2004; Adler and Kwon, 2002)

- Ireland was seen by the interviewees as an economy where stigmatisation of failed entrepreneurs was commonplace yet none of the interviewees personally experienced it
- Business failure is an important learning tool, a tailored learning tool (Ryan, 2000; Kriegesmann et al., 2005)
- Emotions influence the level of strategy engaged by interviewees, increased emotional attachments to the firm led to decreased strategic engagement (Royer, 2003)
- Business failure is seen as an entrance fee for entrepreneurship (Ucbasaran et al., 2006)
- Prolonging a firm where failure is inevitable is a form of self protection (DeTienne, 2010; Shepherd et al., 2009a)
- When a strong emotional bond is formed with a firm, the firm is regarded as an extension of the entrepreneur and as such firm failure may result in a loss of an entrepreneurs individual identity (Pierce et al., 2001; Cardon et al., 2005; Dodd, 2002)

7.8 Conclusion

The intention of this chapter was to address the overarching research objective of this study. The above discussion saw relevant literature from the business failure discourse and entrepreneurship literature compared and contrasted with the findings of this study. Firstly the overarching research objective was addressed and the main findings of the study were presented. The chapter then progressed to include the analysis of the four research questions that together make up the overarching research objective. Discussing the research questions drew out the subtleties and nuances of business failure. Moreover given this chapter merged analysis of the study’s findings presented in chapters five and six with the literature in chapter two the result is the holistic fulfilment of the overarching research objective namely: How does the process of decline evolve within a firm and what is the causal effect on management actions?
CHAPTER 8: CONCLUSION

8.1 Introduction

This final chapter concludes the research on how the process of decline evolves within a firm and the causal effects of the decline on management actions. In bringing the study to a close this chapter presents a broad overview of the key literature gaps that were identified and the research questions that formed the basis of the research agenda of this study. Following on from this a summary of the principal conclusions arising from this research is presented with particular attention focusing on the business failure categorisations introduced in chapter six and the business failure process model presented in chapter seven. More specifically, the conclusions arising from each of the research questions are integrated together culminating in a comprehensive description of the contributions of the study and the fulfilment of the thesis’ overarching research objective. Furthermore, in light of the contributions presented, the theoretical implications of the research to policymakers and practitioners are discussed. Following on from this, recommendations for future research agendas are outlined and a number of limitations arising from the research methodology are presented. The chapter culminates in a selection of concluding comments on the study.

8.2 Research Gaps and Objectives

Rooted in the business failure literature, this research examined the process of decline and its evolution within a firm. The causal effect of such a failure on management actions is also an element of this research. After rationalising the subjects of the study through a robust analysis of the literature, a number of gaps were uncovered. Firstly, and in broadly referring to the IO/OE and OS/OP debates, the internal and external factors pertaining to business failure have been explored, in an effort to address the chasm (Mellahi and Wilkinson, 2004) that exists as a result of the chasm between deterministic and volunataristic schools
of thought. The importance of research which contributes to the convergence of
the IO/OE and OS/OP approach to business failure is not to be underestimated as
Mellahi and Wilkinson (2004) argued that continuing fragmentation of the
literature could lead to a failure of the discourse itself whereby it would become
a ‘weed patch’ rather than a ‘well-tended garden’. Secondly, with regard to firm
closures, whether the closure was a strategic business decision or due to
circumstances beyond the entrepreneur’s control was another topic addressed in
this study. According to Cardon et al. (2011) most studies fail to distinguish
between “the failure of entrepreneurs and the failure of their firms” (p.80).

Exploring the strategic element of closures also provides understanding into the
implications of using certain failure definitions over others. Bruno and Leidecker
(1988, p. 51) noted, “no two experts agree on a definition of business failure”.
The various interpretations of business failure within the literature are best
described as shifting goals whereby the range of the dataset either contracts or
expands depending on a given academics perception of failure (Cochran, 1981;
expected and desired results” as a measure for failure, this is an all encompassing
definition loaded with an imprecision that allows almost every firm in existence
to fit into its realm in some aspect. Ceasing to exist is another wide reaching
measure for firm collapse as it includes firms which have been wound down for a
whole host of reasons such as the owner closing due to retirement or to take
advantage of alternative opportunities. The probing, qualitative nature of this
study allowed the researcher to examine the nuances of failure and in particular
provide further understanding into strategic exits and successful failures. Such an
approach overcomes issues that have previously contributed to fundamentally
flawed failure statistics primarily due to the inclusion of firms which change
ownership, geographical location or legal structure in the business failure
statistics (DuToit, 2006).

Contemporary literature on business failure identify it as a process, this strand of
discourse suggests that a firm evolves through various chronological phases of
failure (Weitzel and Jonsson, 1989; Cannon and Edmondson, 2005). According to Moulton (1996) the majority of studies that have attempted to describe failure have focused on a single static pattern. Despite Argenti’s (1976, p.121) call for “a storyline that binds together all these causes and symptoms into a working model”, Ooghe and De Prijcker (2008, p.226) say to date “few researchers have explicitly analysed failure as a process”. Although this remains an under-researched area some recent studies have begun to chart the processual nature of corporate decline (Richardson et al., 1994; Moulton et al., 1996; Mellahi and Wilkinson, 2004; Mellahi, 2005) yet the models of business failure these authors present are based on an examination of existing literature or data gleamed from existing secondary resources. A core objective fulfilled by this research is the presentation of a model that details the process of decline within firms based on empirical data.

A final gap was identified in the literature after it was observed that the ‘affect of failure on the individual’ was fast becoming a topical subject in the contemporary literature (Wiesenfeld et al., 2008; Sheppard et al., 2009a; Cardon et al., 2011; Cope, 2011). Despite this growing interest in the discourse Wiesenfeld et al. (2008) argued that to date there has been little research into the ways in which corporate failures affect the life’s of individuals from a professional and economic perspective. An exploration into the personal and professional affects of failure also provides us with a greater understanding of the acceptance of failure in society and the culture of the country (Wiesenfeld et al., 2008; Cardon et al., 2011).

8.3 Key Conclusions of Research

The review of the literature and subsequent gaps identified developed a compelling argument to embark on a qualitative study into business failure in Irish ICT SME firms. This section presents the key conclusions emerging from the research as per the four research questions and over-arching research objective. The business failure process model and the business failure
categorisations will also be integrated into the conclusions and the key contributions of the research will be put forth.

8.3.1 The Process of Business Failure

The overarching research objective of this thesis is: ‘How does the process of decline evolve within a firm and what is the causal effect on management actions?’ From an analysis of the findings it was found that the process of decline evolves differently in different categories of firms and this variance primarily depends on the entrepreneur’s attitude and approach to entrepreneurship. Although the various categories of entrepreneurs begin and end their respective journeys at the same points the process by which they arrive at the end point is markedly different for each set of interviewees. The idea of differing failure types has been broached previously in the literature (Miller, 1977; D’Aveni, 1989; Richardson et al, 1994; Moulton et al., 1996). However a major deficit to these models is the lack of primary data as they are all typologies that were devised from scraping existing data from publicly available sources. The model developed from this study has emerged by exploring not just the process of decline but also the entrepreneurs’ intentions when commencing the company in addition to how they reacted and recovered from the failure. The result of which is the creation of four failure categories, the ‘Opportunist’, the ‘Pragmatist’, the ‘Experimentalist’ and the ‘Purist’, each failure process type follows a different trajectory but ultimately the firm ends in closure for each of the pathways. The Business Failure Process Model in Figure 8.1 visualises these trajectories.
8.3.2 Internal and External Failure Factors

The research identified internally cultivated triggers to be more common contributors to business failure than externally generated factors. The research identified ten failure triggers in total, six of which were identified as internal causes, two were external, environmental contributors and the remaining two were a combination of internal and external causes. Thus internal causes within management’s vista of control may be regarded as the predominant contributor to firm failure. This finding aligns with the Organisational Studies (OS) and the Organisational Psychology (OP) perspective and in particular corroborates the findings of Fredland and Morris (1976), Hansen and Wernerfelt (1989) and Malone (2004) that internal factors have a greater impact on the overall health of the firm than external factors. The key contribution comes from the identification of emotional attachment and the effect this has on managerial decision making and action. The stronger the emotional bond an entrepreneur has with their respective firm the less they engage strategy when addressing problems that the firm is experiencing, thus their judgement is clouded and their resultant actions
serve to worsen the firms problems which may be regarded as entrepreneurial terrorism.

Another key contribution of this research is highlighting and detailing the number of positive factors that triggered the process of decline and ultimate closure of the firm. Whilst firm closure has traditionally been viewed as a negative occurrence it can in some instances as noted by Headd (2003) be the result of circumstance and many may close while successful. This was certainly the case for some entrepreneurs in this dataset. Headd (2003) noted that only one third of new businesses closed under circumstances owners considered unsuccessful. This research supports and extends this observation through extensive examination of the closure process. Firstly the concept of successful closure is examined in this research; also the types of entrepreneurs that close successfully and the conditions under which they close successfully are presented. Opportunists and Pragmatists are two groups of interviewees that are regarded as closing successfully, they engaged strategy and were clinical in their approach to the failure. Furthermore they recovered immediately from the failure and appreciated the experience.

With regards to the two external triggers to business failure, namely greener pastures and the market imploding, the argument could be made that these entrepreneurs set up their business during a precarious period in the market and thus are liable for a portion of the responsibility. This rationale is akin to the thoughts of Argenti (1976) as it is felt that a competent manager is responsible for everything and has done sufficient planning and research to be prepared when things diverge off course. Argenti (1976), a strong propagator of the OS/OP perspective argues that only an unanticipated shock for which inadequate notice is given is the only time when failure may not be directly attributed to management. Considering the external factors that presented themselves in this study the arguments of Argenti (1976) in favour of the OS/OP perspective are still highly relevant today.
8.3.3 Strategic Instigation or Constrained Relinquishing

Whether the closure was a strategic decision or whether it was beyond managements control is the basis for research question two. The level of strategy employed differed amongst the different groups of entrepreneurs. In total four groups emerged: highly strategic, moderately strategic, non-strategic and pure failure. It was found that these groups were homogenous within and heterogeneous between. The levels of strategy engaged can also be segmented by the categorisations of business failure, whereby:

- **Opportunist** → **Highly Strategic**
- **Pragmatist** → **Moderately Strategic**
- **Experimentalist** → **Non Strategic**
- **Purist** → **Pure Failure**

Opportunists are a type of entrepreneur that exploit entrepreneurial conjectures. Whilst Pragmatists embody discontinuous change and build on the arguments of noted academics (Weitzel and Jonsson, 1989, Cannon and Edmondson, 2005) that early identification of problems in a firm can allow for a strategic exit. Then Experimentalists highlight that an ease of access to a market can have a negative effect on determination and initiative, furthermore failure can be utilised as a tailored form of learning. Finally, Purists show that extreme devotion to a firm can impact decision making in a negative manner and destructive passion and entrepreneurial terrorism. Overall strategic engagement differs for each group of entrepreneurs and the strong emotional involvement is negatively correlated to strategy and strategic engagement.

8.3.4 Management’s Response Action

This research question focused on the actions management undertook during the failure process. A total of six actions emerged from the findings. These were as follows:
• Access Finance
• Go Contracting
• Networking
• Decision Making
• Marketing Push
• Other Actions

Actions such as attempts to access finance, starting a marketing push and being generally decisive in ones course of action are rather expected activities for entrepreneurs to engage in when things get difficult (Fielden et al., 2000; Welpe et al., 2012; Friedmann, 2003). However going contracting was an unexpected action which emerged. This action as one would expect was counterproductive as the entrepreneur tried to rescue their firm by abandoning it at a crucial stage under the guise obtaining additional cash through contracting to support and ideally rescue the firm from demise. Another factor that was positive to see was the reliance entrepreneurs had on both their professional and personal network when their business experienced problems.

8.3.5 Personal and Professional Affect of Failure

This research question examined the affect the experience of business failure has on ones personal and professional life. The findings show that the degree of affect varies between the categories of entrepreneurs and whether the entrepreneur has an emotional attachment to the firm. Emotional bonding was apparent in two of the four groups, namely Experimentalists and Purists. The effects of these emotions were profound and affect the manner in which the entrepreneurs reacted to the onset of the failure process and their subsequent recovery from the failure. The fact that the two groups that could be considered “positive failures” (i.e. the Opportunists and the Pragmatists) exhibited no signs of emotional attachment to their firms is interesting to note. However Opportunists and Pragmatists appear to display a sense of attachment to the entrepreneurial process itself rather than an attachment to a particular organisation. The following phrase sums up the distinction between the groups: The Opportunists and Pragmatists exhibited an enjoyment for the journey which a life as an entrepreneur supplied them with whereas the Experimentalists and in
particular the Purists were more preoccupied with the destination (i.e. making their current firm successful).

8.4 Contributions of Research

As envisaged at the onset of this study the outcomes of this research has resulted in a range of contributions. The precise contributions of this study were broken down into three categories: empirical, theoretical and methodological. Each of these categories of contributions are detailed below.

8.4.1 Theoretical Contributions

This research showed that internal factors, within management’s vista of control are the dominant failure trigger. This finding aligns with the Organisational Studies (OS) and the Organisational Psychology (OP) perspective and in particular supports and extends the findings of Fredland and Morris (1976); Hansen and Wernerfelt (1989) and Malone (2004) that internal factors have a greater impact on the overall health of the firm than external factors.

A further theoretical contribution arises from the concept of positive exits or successful failures. Headd (2003) noted that only one third of new businesses closed under circumstances owners considered unsuccessful. This research supports and extends this observation as an extensive examination of the closure process highlighted networking and greener pastures as the dominant causes of firm closure for a selection of entrepreneurs. Bates (2005) cited opportunity cost as being the primary reason for discontinuing a seemingly successful business and this is definitely substantiated by the responses of the entrepreneurs involved in this study. Despite positive exits being recognised in the literature many study’s examining business failure tend to ignore it as a possibility as the methodological approaches employed by many researchers does not allow for the further investigation required to establish rather an exit was a positive exit or a
traditional failure. However, the qualitative nature of this study allowed for such a factor to be considered and thus add to the theory in this area.

Wiesenfeld et al. (2008) noted that networking is a tool that may be used to enable entrepreneurs to bounce back from their failure experience; this was strongly corroborated and extended upon by this research’s findings. Networking was cited by a selection of interviewees as a trigger for the process of closure as some entrepreneurs used their business as a means of building their social capital and tapping into specific networks, they then choose to close their initial firm and embark on future business ventures with members of their new network. The findings on networking, learning and experience that emerged from this research are at the forefront of the discourse on business failure as the emotional side of failure is considered in greater detail. Cardon et al. (2012) argue that the literature has barely begun to uncover the most interesting facets of entrepreneurial emotion.

8.4.2 Empirical Contributions

The ‘Business Failure Process Model’, based on empirical data, is another contribution of this research. There is a dearth of empirical research on the business failure process (Cardon et al., 2011; Ooghe and De Prijcker, 2008) this study addresses this deficit. More specifically the study empirically charts new ground by identifying the existence of different failure process trajectories. Empirical evidence is also provided which illustrates a potential link between entrepreneurial attitudes to business failure and consequential stigmatisation. Another contribution of this research stems from the identification of internal triggers of the business failure process proving to be more dominant than external triggers.

Furthermore, this research provides empirical evidence of ‘successful failures’, firms that for all intents and purposes appear to be failures, closing down within
five years of start-up, never having gotten of the ground in a business sense, yet close due to a better opportunity arising. Such positive exit strategies have been discussed in the failure literature (Headd, 2003) yet this consequence often gets characterised as traditional failures due to the lack of ability on researchers part to distinguish between the two. Most studies to date have not involved primary, in-depth, probing, qualitative research (Richardson et al., 1994; Moulton et al., 1996; Mellahi, 2005) and as a consequence of this positive exit has, to date, been largely overlooked.

8.5 Implications of Research

This research also has implications for practitioners, policy-makers and theory. These implications are detailed below.

8.5.1 Practice Implications

The findings of this study are of benefit to new and potential entrepreneurs wishing to understand and avoid falling victim to the process of business failure. Indeed, while negotiating access to entrepreneurs many interviewees cited their motivation in partaking in this research was to help other entrepreneurs avoid a similar fate in the future. Firstly this study presented the internal and external factors that impacted upon the process of decline. Communicating these will encourage future business people to be aware of the triggers of business failure and as such avoid them. Secondly the actions undertaken by management as a means of overcoming the onset of failure are also discussed in this study. Acknowledging these actions and the reasons they were unsuccessful attempts will show other entrepreneurs in similar circumstances why certain activities, such as going abroad contracting when ones firm is in difficulty is unlikely to reign in the downward spiral.
Furthermore, this study highlights the importance of networking in business for entrepreneurs. A comprehensive social network provides entrepreneurs with a safety blanket that buffers them from the ill effects of firm failure. A strong network also mitigates the effects of stigmatisation arising from failure as entrepreneurs can recover quickly through use of their social network and hence reinstate social standing and offset the less favourable effects of firm failure.

Emotions and importance of entrepreneurs having control over their emotions with regards to their firm is another implication of this research. A selection of entrepreneurs allowed pride and emotional attachment to cloud their judgement, this study serves as an important reminder to entrepreneurs to realise that their firm is a business and as such should be treated in a business like manner and not, as one interviewee in this study referred to their firm, as being “like someone...like a child” (Interviewee 8).

8.5.2 Policy Implications

This study also has important implications for policy makers and state bodies such as Enterprise Ireland and the county enterprise boards, whose role in the economy is to promote entrepreneurship and new venture creation. Firstly it is important to note the revolving door nature of entrepreneurship whereby the failure of a firm rarely indicates the end of an entrepreneur, as they are likely to return with a subsequent venture in the future. Thus it is vital to promote the process of learning that should begin after failure occurs. In order for learning to commence after the experience of firm failure, ‘schadenfreude’ and stigmatization as a result of failure, needs to be kept to an absolute minimum. This could largely be regarded as a cultural issue and so requires a tentative and considered and multi-faceted approach to overcome.

Furthermore, the idea that networking has the potential to negate the negative consequences of failure is important for policy-makers, Enterprise Ireland and
the county enterprise boards to note. These entities have the presence across the
country to promote collaborative networks and hold networking events for
entrepreneurs to facilitate an active and interactive business community. Recent
research also states that entrepreneurs prefer informal support networks above
formal support networks (De Faoite et al., 2004), this was corroborated by this
research. This highlights that concepts such as business angels and other
systematic formal supports are unlikely to be as successful and impactful as
growing and encouraging informal linkages amongst business people across the
country.

8.5.3 Theory Implications

The findings of this study make important contributions to the field of
management, entrepreneurship and in particular the business failure literature.
Chapter three charted the evolution of the failure literature from its roots in
failure prediction models to its current position in the organisational psychology
and organisational studies discourse. The chapter further detailed how business
failure is regarded as process with chronological phases; the stigmatisation of
entrepreneurs as a result of failure was also detailed. The findings of this
research hold important implications for these concepts and these shall be
discussed below.

Firstly the concept of business failure as a processual occurrence was proved by
this study to be an accurate description of the phenomenon, however the business
failure process was not captured by one all encompassing trajectory, but through
four, relatable yet distinctly different closure paths. The closure trajectory an
entrepreneur finds themselves on is highly relatable to the level of strategy
employed throughout the venture and also the attitude and actions of the
entrepreneur. The study’s four closure trajectories are the ‘Opportunist’, the
‘Pragmatist’, the ‘Experimentalist’ and the ‘Purist’. Thus the findings of this
study are in harmony with Argenti (1976), Mellahi (2005) and Ooghe and De
Prijcker (2008) all of whom contend that failure typically progresses through
distinctive, identifiable patterns. A further theoretical implication of this research arises from the empirical nature of this study. The study’s rigorous methodological approach means a replication of this research in other industries in various geographical locations is possible which in turn may contribute to a business failure research standardised model with the potential to eliminate the element of incomparability between research studies.

Secondly, the issue of stigmatisation as a result of failure, this study found that stigmatisation is perceived to exist in Irish culture as a consequence of failure yet few entrepreneurs actually encountered it. An interesting proposition on stigmatisation arose from this research, it is the notion that sometimes people’s reaction to ones failure is based on ones own reaction. This perspective complements the observations of Atkinson and Feather (1966) who posit that stigmatization is in fact partly propagated internally by the entrepreneur as a personal reaction to the trauma and shame experienced as a result of the failure rather than being an actual state imposed on the individual by society. Another facet drawn out by analysis of the findings and linkage to the literature highlighted that the lack of stigmatization experienced may also arise from the extent of networking that the individuals engaged in. All interviewees questioned for this study regarded networking as an important part of business and when they experienced failure, were bolstered by their network through offers of work and future business ventures. This finding aligns with the work of Wiesenfeld et al. (2008), Fielden et al. (2000) and Gilmore et al. (2004) who contend that a comprehensive social network is important as a means of negating the negative effects of failure.

8.6 Limitations

The steps taken to ensure the rigour of this research were extensive and exhaustive, however it should be acknowledged that there are some limitations to the study, primarily methodological. These limitations were detailed in Chapter
A major limitation of this study centres on its generalisability. In particular the timing of this study, which was at a very precarious and unique period in the history of the Irish ICT sector. Ultimately, all of the thirty interviewees incorporated their firms between 2000 and 2007 and a stipulation of this study meant that all the firms under investigation closed down within five years of start-up, however a considerable number closed down after two years of start-up, this is positive as it means that the majority of the interviewees were not affected by the global economic recession which occurred in 2008. However other factor need to be considered, during the period of investigation the Irish ICT sector was undergoing major contextual changes. There was unprecedented growth in the industry and Ireland became an incubator for innovation, which added greatly to the disruptive innovations that were taking place. Industry specific regulatory and legislative changes also hinders the generalisatability of these findings to other industries as there was numerous context specific factors unique solely to the interviewees participating in this research.

The first limitation centred on the uncertainty of obtaining access. Given the sensitive nature of the research topic, a lot of patience and perseverance was required to ensure adequate data was gathered to sufficiently fulfil the research objectives.

Weisberg, Krosnik, and Bowen (1989) believe that asking questions about sensitive topics can be problematic, as interviewees may prefer to save face and remain respectable in the eyes of the interviewer. This issue was encountered to a degree, as some interviewees were apprehensive about discussing issues that may imply the company failure was down to one particular individual and their actions.
• All interviewees interviewed as part of this study were company directors of consequently failed firms; this provides a view of failure from a confined perspective. A more comprehensive overview of the failure process may have been determined by incorporating the views of other stakeholders in the firm.

• The phenomenological perspective embraced in this study acknowledges that the researcher is part of the research process and as such ones actions, reactions, interpretations and rhetoric are an innate part of the research process and cannot be separated from it (Giddens, 2001). As such a possibility of researcher bias is acknowledged. The researcher tried to combat some of the research bias through adhering to strict constraints when devising the pool of potential interviewees and engaging NVivo as an analysis tool.

8.7 Directions for Future Research

The findings of this study may serve as a basis for further research in the area of business failure. A selection of the main avenues viewed as natural extensions to this research are detailed in this section. A useful potential for further studies is to replicate the research process employed in this study, with a different set of entrepreneurs, in a different geographical setting, with the ultimate purpose being the creation of a global database of business failures which could be compared and contrasted to investigate if the same findings and conclusions could be drawn.

Some of the other avenues for further research include:

A deeper examination into the emotional journey of business failure is a possible avenue for further research. According to Mangaliso (2001) a vast amount of management theory is based on early 20th century literature, which depicts humans as individualistic, utility-maximising, transaction-oriented species however more recent studies present humans as social beings guided by
emotions. Thus through research that is appreciative of the emotional side of management more holistic, encompassing theories can evolve (Cardon et al. 2005). The current failure literature is beginning to appreciate the softer, emotional side of failure (Cardon et al., 2012; Podoynitsyna et al., 2012; Welpe et al., 2012; Shepherd and Cardon, 2009; Shepherd et al., 2009b; Wiesenfeld et al., 2008) in January 2012, *Entrepreneurship Theory and Practice* the leading scholarly journal in the field of entrepreneurship studies released a special issue on entrepreneurial emotion, which highlights the directional trend in the discourse. It is a trend that the researcher envisages will continue particularly given the potential to apply psychology theories to business failure. Psychology is a broad field and business failure is still in its infancy thus a merging of the two areas is likely to be long and fruitful.

A selection of entrepreneurs in this study displayed emotional attachments to their firms; one interviewee described their firm as being like a child. Cardon et al., (2005) and Dodd (2002) previously noted identification of this variety, as entrepreneurs referred to their ventures as their ‘baby’. This indicates that exit is more than a liquidity event in which the entrepreneur relinquishes equity ownership, but also an event with psychological implications (Cardon et al., 2005). Examining business failure from a psychology perspective opens up a host of cross-comparable theories that may be applied to business failure from the psychology discourse (Cardon et al., 2005). Cardon et al., (2005) provided an example of the potential cross-comparability of theories by highlighting Rosenblatt’s (2000) research which found that parents who have lost a child are more aware of potential loss with subsequent children and as such are more vigilant and overprotective with those offspring. It is consequently suggested that by this analogy entrepreneurs that have experienced failure are less overconfident than first-time entrepreneurs. Future research could extend and examine these potential cross-comparisons in more detail as Cardon et al. states that “the impact of prior failure on future entrepreneurship has not received significant attention in the literature” (2005, p.36).
Furthermore entrepreneurship is the study of organizational emergence but it is also the study of failed attempts to create new businesses (Learned, 1992) and even failed intentions or desires to start a business (McGrath, 1999). Thus an exploration of the various points during the entrepreneurial process at which failure may occur has the potential to yield significantly greater insights than examining failures that have already emerged (Cardon et al. 2005). As such the study of organizational founding’s or organizational deaths does not consider founding attempts that did not result in start-up (Katz and Gartner, 1988). To explore such an issue would be a formidable task as there is no database for potential entrepreneurs failed intentions, however such research would further our knowledge on entrepreneurship and failure and is likely to be informative to policy-makers and future entrepreneurs considering a career in new venture formation.
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APPENDIX A: CORRESPONDENCE TO POTENTIAL INTERVIEWEES REQUESTING PARTICIPATION

Mr./Ms. Potential Respondent,
Company Director
Failed Company Name Ltd.

Dear Mr./Ms. X,

I am currently pursuing a PhD within the Centre for Innovation and Structural Change at the National University of Ireland, Galway. The focus of my research is business closure and the management approaches at play throughout this process. Over the past year I have gathered and subsequently refined a potential dataset of Irish Information and Communication Technology companies suitable for inclusion in this study. Your previously owned company Failed Company Name Ltd. fits the research criteria of this research agenda. To this end, whilst I am fully aware that your own schedule is a pressurised and complex one, I would be delighted if you would take a few moments and consider partaking in this research project.

The principal aim of the research is to understand the process of firm closure with respect to the issues and obstacles which faced both the company and yourself along the way and to gain some insights which will aid future entrepreneurs learn from the experiences of their predecessors. As your own company is an interesting and illustrative example it offers the potential to guide policy making and provide a positive outcome from a difficult experience.

Whilst offering a commitment to this study may seem secondary to your current business priorities, there are a number of valuable reasons as to why you might give serious consideration to partaking.

- You will have the opportunity to discuss your personal experiences with the potential to guide future policies which impact upon small enterprises.
- You will be kept informed of our research developments and findings throughout the study process.
- You have the chance to equip future entrepreneurs with the skills they may need to succeed by offering to share your insights and knowledge with this study.

http://www.nuigalway.ie/cisc/people/gwalsh.html
Email: gracenator1@gmail.com
Tel: +353 86 0713200
Partaking in the study, however, will come with a number of assurances. Namely, confidentiality will be absolutely guaranteed with company details and the names of individual participants remaining completely anonymous throughout and after the investigation, unless instructed otherwise. Additionally, appropriate efforts will be made to ensure that the research interview is unobtrusive and flexibly tailored to the individual respondent’s emerging circumstances. Furthermore, the research agenda will not be seeking information of a confidential or sensitive nature nor will it be concerned with issues of blame regarding the business collapse context. Indeed the sole and overriding focus of the study throughout will be the understanding of the process and nature of business failure as it takes place and spreads throughout a firm resulting in its ultimate closure.

Following extensive research, it is clear that this particular research agenda is highly innovative and very much at the forefront of its field. Its progress however, is wholly dependent on meaningful relationships being formed with the appropriate entrepreneurs, entrepreneurs who are quite understandably operating in highly pressurised and sensitive conditions. I would kindly urge you to strongly consider partaking in the study. The relationship formed will of course be strictly guided by your own contingent priorities and, whilst of obvious benefit to my own research agenda, it could undoubtedly evolve to be of huge benefit to your own understanding and assimilation of your experience.

I am contactable through the email address and mobile number below and I look forward to your reply.

Yours sincerely,

Grace Walsh (PhD Candidate)  
Dr. James Cunningham (Director of CISC)

Email: gracenator1@gmail.com  
Email: james.cunningham@nuigalway.ie

Tel: +353 86 0713200  
Tel: +353 91 493472

http://www.nuigalway.ie/cisc/people/gwalsh.html  
Email: gracenator1@gmail.com  
Tel: +353 86 0713200
I sent you a letter last month with regards to your previous company Failed Company Name Ltd. I’d like to do a phone interview with you to better understand your experience it should only take about 30mins I can work around your schedule.
Grace Walsh, NUIG
086 0713200
APPENDIX C: INTERVIEW QUESTIONS PRETAINING TO EACH RESEARCH QUESTION

What are the external causes of business failure?

External Causes of Business Failure

Describe why you decided to set up your own business?

Could you describe the position of the business in its early stages (i.e. before failure)?
- What was unique about the business?
- Was there numerous customers or a few core ones?

Describe the competitive environment and the conditions that the firm operated in?
- Did the firm experience any changing market trends?
- How was the firm’s relationship with financiers/suppliers?
- Was there ease of access to external finance sources?
- What amount of funding was obtained from external sources?

What are the internal causes of business failure?

Internal Causes of Business Failure

What planning processes were there in place?
- Did you adhere to these plans?
- Did you review and adapt plans?
- What assumptions underlay the business?
- Did you ever test those assumptions?

Describe your leadership style?
- Where you externally focused or operations focused?

What approaches did you use to manage/recruit/motivate staff?
- What were the main difficulties you had when hiring people? (e.g. lack of expertise, commitment…)

How did you structure the various functions of the firm?
- Did you market your business?
- Did you carry out formal market research? If so, in what form?
- Did the firm keep up to speed with technological advances?
- Did you use the right technology to fulfil customer requirements?

What control systems and mechanisms were put in place to ensure the smooth running of the firm?
- Did you have a financial reporting system in place?
- Did you delegate to employees and managers?
- What influenced your choice to delegate? (had to/wanted to/only delegated menial tasks)

To what extent was the closure a strategic business decision or was it beyond management’s control? and... What actions do management take during the advancement of business decline?

Evolution of Business Failure
What were the first signs of the business being in trouble?
- What sort of relationship did you have with your customers and how did it change?
- How soon were the difficulties the firm was in reflected in the differentials?

What decisions were made within the firm at this stage?
How were these decisions made?
- If you were unavailable who made decisions?

Did you seek financial aid in the initial stages of difficulty?
- Was the required amount obtained?
- Did you have a plan for how you would use the financial aid?

Did the culture of the firm change as the failure unfolded? How?
- Did relationships with staff, suppliers and customers’ change/deteriorate?

When you realised the firm was in trouble what were your initial feelings and thoughts?
Describe the timeframe for the failure?
- What barriers and challenges were encountered which influenced the rate of failure?
- When a negative change was recognised how was it dealt with?

What was the communications structure like within the firm, both internally and externally?
- Were there regular meetings with entire staff or did only management and those with a financial stake get to be informed of the firm’s position?

Describe the changes that were made in the early stages of failure as a means of counteracting the failure? (Reduce product lines, change suppliers…)

Was there a critical point reached within the firm when you knew for sure the business was going to fail?

Did you do an analysis of the problems the firm was facing?

What actions did you undertake?
- Who was involved? (External consultant/frontline staff…)
- What initiatives were attempted?
- What was the biggest mistake made when trying to revive business?

How does experiencing business failure affect one’s personal and professional life?

When you realised the firm was in trouble what were your initial feelings and thoughts?

Was there a critical point reached within the firm when you knew for sure the business was going to fail?

What did you learn from the failure?
- Has the failure resulted in a behavioural change?
- Are you interested in starting a firm again or being involved in new enterprise creation in some way?

Equipped with the knowledge that you have gained since failing do you think you could now save the business if you had a chance to go back to the beginning of the failure process?

What were the personal, professional and stakeholder reactions when the firm failed?
- What was your personal role in the failure?
## APPENDIX D: INTERVIEW PROTOCOL

1. What is your background discipline? Tick the appropriate box/boxes:

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<tr>
<th>Arts, Social Science and Humanities</th>
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<th>Commerce and Business Studies</th>
<th>Medicine, Dentistry &amp; Paramedical Studies</th>
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<th>Architecture</th>
<th>Food Science &amp; Technology</th>
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2. Describe why you decided to set up your own business?
3. Could you describe the business in its early stages (i.e. before difficulty)?
4. Describe the competitive environment and the conditions that the firm operated in?
5. What planning processes were there in place?
6. What approaches did you use to manage/recruit/motivate staff?
7. Describe your leadership style?
8. How did you structure the various functions of the firm?
9. What control systems and mechanisms were put in place to ensure the smooth running of the firm?
10. What were the first signs of the business being in trouble?
11. Did you do an analysis of the problems the firm was facing?
12. What decisions were made and what actions were undertaken within the firm at this stage?
13. How were these decisions made?
14. Did you seek financial aid in the initial stages of difficulty?
15. Did the culture of the firm change as the downturn unfolded? How?
16. Describe the timeframe for the collapse?
17. Tell me about the internal and external communications structures within the firm? (How did you communicate the company position to employees, shareholders, suppliers, customers, etc.)
18. Describe the changes that were made in the early stages of difficulty as a means of counteracting the downturn? (Reduce product lines, change suppliers…)  
19. Was there a critical point reached within the firm when you knew for sure the business was going to close?  
20. When you realised the firm was in trouble what were your initial feelings and thoughts?  
21. What did you learn from the experience?  
22. Equipped with the knowledge that you have gained since the closure do you think you could now save the business if you had a chance to go back to the beginning of the failure process?  
23. What were the personal, professional and stakeholder reactions when the firm closed?  

These are questions that I hope to answer through research in advance of the interview:  
a. What prior experience did you have of running a business?  
b. What stage of the product cycle was your firm in?  
c. Was this your first time being an owner/manager?  
d. What previous experiences if any prepared you for the task at hand?
APPENDIX E: NVIVO HIERARCHY CODING FRAMEWORK

Master Theme: Research Question 1:

What internal and/or external factors impacted upon the process of decline?

Tree Nodes:

- Internal
  - Experience
  - Lack of Market Research
  - Narrow Focus
  - Commitment versus Emotional
  - Leadership
  - Pragmatism

- Internal/External
  - Timing
  - Access to Capital

- External
  - Greener Pastures
  - Market Imploding
Master Theme: Research Question 2:

Was the closure a strategic business decision or was it beyond management's control?

Tree Nodes:

- Highly Strategic
- Moderately Strategic
- Non-Strategic
- Pure Failure

Sub-Theme Nodes:

- Strategic Choice
  - Networking
  - Displayed Opportunism
- Hedging Ones Bets
  - Bureaucracy
  - Gap in the Market
- Taking a Punt
  - Loss of Momentum
- Financial Distress
  - Emotional Investment
  - Internal Disputes
  - Environmental Context
  - Engaged in Contracting
Master Theme:
Research Question 3:

What actions does management take during the advancement of business decline?

Tree Nodes:
- Access
- Finance
- Contracting
- Network
- Reliance
- Decisiveness
- Marketing
- Push
- Enter
- New
- Markets
- Other
Master Theme: Research Question 4:

How does experiencing business exit affect one's personal and professional life?

Tree Nodes:
- Recovered Rapidly
- Decisive Action
- Valuable Lessons Learnt
- Substantial Impact

Sub-Theme Nodes:
- Recovered Rapidly:
  - Proactive Positive Perspective
  - Nonchalant Attitude to Closure
  - Infectious, Competent Personalities
  - Entrepreneurial Process Enthusiast
  - Experience Building
- Decisive Action:
  - Learning
  - Acceptance
  - Recovery
  - Professional Repercussions
  - Regret
- Valuable Lessons Learnt:
  - Stigma, Psyche and Distance
  - Experience
  - Positivity
  - Moral Duty
- Substantial Impact:
  - Stigma: Self-fulfilled Prophecy
  - Relationship Changes and Support Network
  - Learning
  - Loneliness
APPENDIX F: NVIVO FREE NODE CODING FRAMEWORK

Opportunist
(free node)

Highly Strategic

- Strategic Choice
- Networking
- Opportunism

Recovered Rapidly

- Positive Proactive Perspective
- Nonchalant Attitude to Closure
- Infectious, Competent Personalities
- Entrepreneurial Process Enthusiast
- Experience Building
Pragmatist
(free node)

- Moderately Strategic
  - Hedging Ones Bets
  - Bureaucracy
  - Gap in the Market
- Decisive Action
  - Learning
  - Acceptance
  - Recovery
  - Professional Repercussions
  - Regret
Experimentalist *(free node)*

- Non-Strategic
  - Taking a Punt
  - Loss of Momentum
  - Stigma, Psyche and Distance
  - Experience
  - Positivity
  - Moral Duty

- Valuable Lessons Learnt
Purist
*(free node)*

- Financial Distress
- Emotional Investment
- Internal Disputes
- Environmental Context
- Engaged in Contracting
- Stigma: Self-fulfilled Prophecy
- Relationship Changes and Support Network
- Learning
- Loneliness

Pure Failure

Substantial Impact