

Business Failure and Entrepreneurship: Emergence, Evolution and Future Research

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Abstract

Business failure research has been the focus of renewed interest in the entrepreneurship field. It is complex, being both a sign of economic vibrancy and the source of great individual trauma. An understanding of these complexities is important to academics, practitioners and regulators. This monograph provides a review of the literature to date. It charts the emergence of business failure research in the finance literature through to its recent development within the contemporary entrepreneurship field. The multidiscipline nature of business failure research is explored through incorporation of studies from accountancy, information systems, social psychology, general management, economics and entrepreneurship. Research on the topic is diverse; the lack of a universally accepted definition of failure coupled with the absence of an underpinning theory has resulted in an expansive range of studies. The aim of this review is to provide a comprehensive and critical review of business failure research, bridge the gap between the various perspectives, and develop a cohesive understanding of the phenomena, upon which future studies can be based.

1

Introduction

Business failure research has its origins in the finance, when the establishment of commercial banks greatly increased the flow and spread of financial information in the latter half of the nineteenth century [Hor-rigan, 1968]. Since then it has been explored and studied by a range of disciplines with researchers using disparate methodologies and various lenses (see Beaver, 1966 — finance; Freeman et al., 1983 — sociology; Dunne et al., 1989 — economics; Moulton et al., 1996 — management; Yamakawa et al., 2015 — entrepreneurship). The most recent resurgence of interest in the subject has occurred in the past decade, with a noticeable and sustaining increase in studies related to business failure emerging from the entrepreneurship literature [see Shepherd et al., 2009b, Ucbasaran et al., 2010, Wennberg et al., 2010, Cope, 2011, Cardon et al., 2011, Mantere et al., 2013, Jenkins et al., 2014, Wolfe and Shepherd, 2015, Hsu et al., 2015]. The renewed interest on business failure within the entrepreneurship domain has led to a focus on individuals' experiences of failure [Franco and Haase, 2010, Simmons et al., 2014, Byrne and Shepherd, 2015], thus departing from the comparatively detached approaches, such as analytical modelling, that were commonplace when the topic first debuted in the finance literature.

Interest in the topic has enriched the entrepreneurship literature and led to a more nuanced understanding of business failure [Ucbasaran et al., 2013, Wennberg and DeTienne, 2014]. However, there remain issues within the field, gathering data on such a sensitive topic is difficult. Comparability between studies is further hindered by the lack of a universally accepted definition; furthermore, the tendency amongst researchers is to select their definition based on access to data rather than scientific reasoning is concerning. This review aims to explore these issues and provide a comprehensive overview of the evolution of business failure research and key debates that have surrounded the subject over the years within the entrepreneurship literature.

This literature review organised as follows. Section 2 discusses the lack of a universally accepted definition of business failure, the difficulties that arise from this, and the way in which this has directly contributed to the limitations of quantitative studies. Furthermore, the range of definitions employed by various studies within the literature is examined in addition to the diverse methodological approaches. Section 3 charts the emergence of failure studies in the business literature, from their roots in financially driven bankruptcy prediction models to the more encompassing organisational decline models. The monograph also explores competing perspectives of business failure — deterministic and voluntaristic. These two distinct schools of thought raise compelling, albeit reductionist arguments in their exploration of the drivers of business failure.

Section 4 provides a review of the extant literature on business failure in the entrepreneurship field. The focus is on the areas of enquiry that have, thus far, dominated literature in the area. The section examines the body of knowledge on causes of, learning from, and psychological effect of failure in the context of entrepreneurship. Additionally, the literature pertaining to emotions and failure as well as recovery from failure are discussed and popular theories that accompany these subjects are considered. This section culminates in an overview of the methodological approaches that are more commonly seen in the recent literature and then discusses the way in which these approaches are comparable to previous research methods. The later part of the review

is comprised of Section 5 where an overview of the limitations of current approaches to the study of business failure is presented; particular focus is given to the issues that arise from retrospective biases. Finally, Section 6 explores the future of the research topic within the entrepreneurship literature. The monograph concludes with a summary of the key arguments presented and an iteration of the importance, for both theory and practice, of sustaining and advancing business failure research.

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