

Seeking Success After Failure

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While few would claim it to be a pleasurable experience, failure may provide entrepreneurs with lessons and insights that can increase the chances of future success. Unlike success, failure can motivate problem solving and analysis which can improve future outcomes. This perspective is echoed by many famous entrepreneurs, including Bill Gates, who emphasized the importance of learning from failure: “it’s fine to celebrate success but it is more important to heed the lessons of failure.” However, entrepreneurs may not always be motivated or able to improve performance after failure. For example, when performance is well below aspiration (i.e., a more severe failure), entrepreneurs may blame outside factors such that, even with a thorough assessment, they will be “barking up the wrong tree” when determining how to improve in the future. At the same time, when performance is just below aspiration (i.e. a “near miss”), entrepreneurs may feel safe in relying on their own decision-making process, resulting in a higher likelihood of repeating prior mistakes and failure. In a recent study of performance after failure, we found that increasing failure severity benefits subsequent performance, but only up to a point where it actually reverses to have an increasingly negative impact.

Two important factors that may impact the response to failure are prior experience and current employment. Put simply, if the entrepreneur believes they have “seen this movie before” and/or has a steady and secure job they can fall back on if a venture is not successful, they are likely to have a different response to failure than the inexperienced founder with no alternatives. We specifically focus on portfolio entrepreneurs (who manage multiple founding roles simultaneously) and hybrid entrepreneurs (who have simultaneous employment positions). In both cases, we expect the unique relationship to risk and prior experience to play a prominent role in how they respond to varying failure severity. We examine these questions using data from the Kickstarter crowdfunding platform, focusing on the relationship between the failure severity of a single founder’s first project on the platform and subsequent project performance.

We find a nuanced picture of entrepreneurial performance after failure, where subsequent performance is low after “near misses” (i.e. low severity), high after moderately severe failure, and low after “strike outs” (i.e. high severity failure). We also find that hybrid entrepreneurs achieve extremely high performance after low severity failure. This could be because hybrid entrepreneurs are potentially less prone to blaming outside factors and more likely to seriously assess the reasons for their failure.

Overall, this study offers a few important lessons for current or prospective entrepreneurs:

- Not all failures are created equal, and neither are the responses to them
- There is a lot that can stand in the way of an effective response to failure for an entrepreneur
- Even full time entrepreneurs managing multiple ventures may have a hard time improving after failure
- Failure may be part of the game of entrepreneurship, but founders are people too and failure is painful for anyone

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