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Life after Business Failure: A Qualitative Account from Nigeria and South Africa

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Bio

Comfort Oni was born in Yagba - West, North-Central Nigeria. She finished her national diploma in 2004, worked for one year before proceeding to South Africa to enroll in a degree program in economics, immediately after she graduated in 2009; she enrolled for a masters degree in the same department and finished in 2011. In order to broaden her knowledge in the area of finance, she decided to do another masters degree in finance at the University of Porto, Portugal. Presently she is rounding off her masters degree in finance with the dissertation titled "Life after Business Failure: A Qualitative Account from Nigeria and South Africa".

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Abstract

Many business firms struggle to survive in their early stage of operation and some eventually cease to exist due to different reasons. Some of these businesses are small scale businesses which are very crucial to economic development. Business failure is, however, a 'normal' event. From the scientific view point, it has been analysed in different perspectives, namely, prediction, causes, and impact/consequences on individual entrepreneurs. This latter though have attracted the least attention from researchers.

Failure is often perceived in terms of the cost it imposes on individual entrepreneurs and on the society at large. Failure, however, does not only convey costs, it might also yield some benefits. The present research aimed to address whether failure is the end of the entrepreneurial circle, or instead it is a learning step that constitutes a basis for further entrepreneurial endeavours. Moreover, the study tried to look into how the cost of business failure affects the entrepreneurs and whether it poses an additional burden in gaining access to funds/financial capital in their subsequent business venture.

In methodological terms, we undertook an indepth analysis of 4 case studies from two different countries, Nigeria and South Africa, which represent distinct contexts in terms of easiness of capital access for entrepreneurial ventures.

This dissertation contributes to the existing literature as it involves an indepth study of the consequences of business failure in underexplored contexts, gathering empirical evidence on both costs and benefits of business failure. The findings reveal that indeed there are lessons learned when there is incidence of business failure, such lessons include choosing one's partner carefully in a partnership business, getting all the necessary documents in order when renting a venue for a business, also by choosing the right technology for the business. In terms of costs, the findings confirm what has already been demonstrated in the literature: costs, namely financial costs, social costs and psychological costs are inevitable in any business failure. Regarding the impact of business failure on the entrepreneurs' access to capital, the study reveals that although business failure may not necessarily be an obstacle for an entrepreneur when trying to get capital for his subsequent venture, in a setting where access to capital is extremely difficult, entrepreneurs are usually forced to use their savings in setting up a business. Thus, when such business does not succeed, entrepreneurs are hardly able to start all over again.

Key words: business failure; entrepreneurs, learning, sense making; social cost; access to capital.

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1. Introduction

Failure in business is not something people often take calmly even though individuals tend to react to it differently depending on the entrepreneurs' characteristics. This area of research has attracted much attention in a recent time given its significance in terms of the costs associated with business failure. From the economic point of view, business failures can generate large fluctuations in interest rate, credit, inflation, profits and business formation (Liu, 2009). Thus sharp rises in corporate failures can have important implications for and financial macroeconomic stability.

Company failure can also impose various types of costs on the direct stakeholders of the company such as the entrepreneur, management and employees, as well as the direct environment of the firm, i.e., shareholders, equity and credit suppliers, clients and suppliers, Government and the economy as a whole (Balcaen and Ooghe, 2006). Leiper and Stear (2009) asserted that studying failures is useful as a guide to success. Studying business failure is also important because business failure leads to economic instability and suffering to both companies and people (Sun and Li, 2009). Notwithstanding, some argued that business failure is not all that bad for the economy, as failed firms could generate some form of externalities that could help reduce industry cost, leading to more efficient cost of production (Knott and Poisen, 2005). Moreover, from the managerial point of view, business failure could lead to a more prudent entrepreneurial decision in the subsequent venture if learning has indeed taken place in the event of business failure (Crick, 2010).

Although a reasonable amount of work exists on business performance, there is still a scarcity of empirical studies on business failure (Ucbasaran, Shepherd, Lockett and Lyon, 2013). Within this latter set of studies, most of the literature focuses on modelling/ predicting failure (e.g., Gallego-Garcia and Mures-Quintana, 2012) or on the factors behind business failure (e.g., Mantere, Aula, Schildt and Vaara, 2013). The issue of what happens after a business failure ('consequences') it is still largely unexplored (Ucbasaran et al., 2013).

According to Ucbasaran et al. (2013), the primary consequences of business failure from an entrepreneurial perspective can be classified into: 1) financial costs (direct cost on the finances of the entrepreneur, which is usually in form of a loss of or reduction in personal income); 2) social costs (impact of business failure on personal and professional relationships of the entrepreneur - breakdown of marriages or close relationships, social stigma - negative discrimination and difficulties to find a new job); and 3) psychological costs (emotional - shame, humiliation, anger, guilt, and blame, the fear of the unknown-, or motivational – losing self confidence).

Most of the research concerning business failure details the negative consequences of the phenomenon. We still do not know much about the latent 'positive' aspects of business failure, how these latent 'positive' aspects of business failure interrelate with the costs of business failure, and to what extent latent 'positive' aspects of business failure depends on the entrepreneurs' characteristics and/or the social and institutional context.

In this context, the present dissertation aims at exploring life of the entrepreneur after a business failure. Specifically, it seeks to address whether failure is the end of the entrepreneurial circle, or instead it is a learning step that constitutes a basis for further entrepreneurial endeavours. Also the study will try to look into how the cost of business failure affects the the entrepreneurs and whether it poses a diffulty in gaining access to capitals in their subsequent business venture or not.

Given that we seek to gather an in-depth understanding of the consequences of business failure and the reasons/conditions that enable/hamper entrepreneurs to succeed after a business failure, we will resort to the qualitative method. The qualitative method investigates the why and how of decision making, not just what, where, when (Denzin and Lincoln, 2005). Hence, smaller but focused samples are more adequate than large samples. Thus, we will analyse a few case studies of business failures in two distinct setting in terms of social and institutional context, namely regarding capital/financial access of entrepreneurs living in Nigeria and South Africa. These countries represent two distinct contexts in terms of entrepreneurial constraints and doing business. South Africa is observed to have more favourable setting in terms of access to credit with a score of 28 out of 189 based on World Bank doing business survey released for 2014. In the case of Nigeria, it represents a more difficult setting in access to credit with a score of 13 out of 189 according to World Bank doing business survey (2014).

The study is structured as follows. The next chapter reviews the relevant literature clarifying the key concept (business failure), providing an account of the state of the art concerning the issue of business failure, with a particular focus on the consequences of business failure. Chapter 3 briefly describes the methodology and data gathering procedures undertaken. The empirical results are presented in Chapter 4 and, finally, the Conclusions put forward the study's main results and limitations.

2. A critical review of the literature on business failure with a focus on the consequences of business failure

This section contains all the relevant literature applicable to this work. It starts with the definitions of the key concepts on business failure (BF). This is followed by the discussion on the three main dimensions of business failure: business failure prediction, explanations for business failure, and the consequences of business failure.

2.1. Defining the key concept: business failure

In very broad terms, failure can result when an individual perform insufficiently with regard to some significant task, or when things in a certain situation do not fall out as they were planned to be (Politis and Gabrielsson, 2009). In this vein, failure is a natural part of the venture creation process.

The definition of Business Failure (BF) is a quite complex and often hidden/implicit concept. From the analysis of 72 articles gathered from Scopus on BF,[1] we realize than almost 70% do not provide an explicit definition of BF. Those few articles that put forward a definition for BF refer mainly the situation of bankruptcy (19.4% of total articles), failure to meet some minimum financial threshold (6.9%) or the close down/disapearence of the business (4.2%).

Different definitions have been used to study the business failure from different perspectives. Among these numerous definitions of business failure that exist in the literature, we synthetize their main dimensions (cf. Table A1, in Appendix) in order to arrive at a more adequate definition to be employed in the present dissertation.

Some of the definitions of business failure focus on failure due to bankruptcy (Hunter and Isachenkova, 2001; Baixauli and Módica-Milo, 2010; Gallego-Garcia and Mures-Quintana, 2012; Chuang, 2013). However, business failure might not be solely involve bankruptcy. According several authors (e.g., Li et al., 2013), beside bankruptcy, financial distress and un-tradable stocks also might fall under what is called BF. Financial distress might encompass a situation where a firm cannot pay

[1]The search was done on the 18th of September using Scopus database. The keywords used include ‘business failure’ or ‘company failure’ or ‘start-up failure’. This generated about 110 articles. Out of the 110 articles only about 72 are relevant while others were either outside the scope of this work or not found.The search was limited to article or review published throughout the year in the area of social science and humanities.

lenders, preferred stock shareholders, suppliers, etc., where a bill is overdrawn (Dimitras, Zanaki and Zopounids, 1996; Lin, Yeh, and Lee, 2011, 2013), there are deficits in a company's shareholders funds, or firm's financial conditions do not justify continued trading and/or listing in the stock exchange (Yap, Munuswamy and Mohamed, 2012). Other authors (e.g., Ucbasaran, Westhead, and Wright, 2009; Ucbasaran, Westhead, Wright and Flores, 2010; Ucbasaran et al., 2013), emphasise that BF occurs with the termination of a venture that has fallen short of its goals, that is, has not met a minimum threshold for economic viability as stipulated by the entrepreneur(s).

There are also situations where firms reach a stage where they cannot continue. For instance, when firms do not have a successful concept, track record to interest investors or potential merger partners (Samuels et al., 2008), or where alliance ultimately cannot deliver satisfying results or it unexpectedly terminates its operation (Chao, 2011; Puig, Garcia-Mora and Santamaria, 2013).

There is an argument that business failure when defined as discontinuance for any reason may appear to be too broad (Cope, Cave and Eccles, 2004). Thus, in a situation where businesses may be discontinued due to extraneous factors, namely retirement, illness, alternative opportunities, or discontinuance when the business is sold at a profit, one cannot consider it as failure.

Nevertheless, in general, business failure could be explained by what happens prior to the collapse of the business, namely organisational decline (Heine and Rindfleisch, 2013) or financial distress (Yap, Helmi, Munuswamy and Yap, 2011).

2.2. The main dimensions of business failure: prediction, explanation, and consequences

Business failure has been studied from different perspectives/dimensions, most notably: the prediction of business failure; the explanations of such incident, i.e., factors that led to business failure; and the impact or consequences of the business failure on the individual entrepreneurs.

Out of the 72 articles that were reviewed on business failure, about 43 percent focus on the explanation of business failure, i.e., the factors that are responsible for business failure. Also about 36 percent focus on the prediction of business failure while only 21 percent addresses the consequences of business failure (see Figure 1).

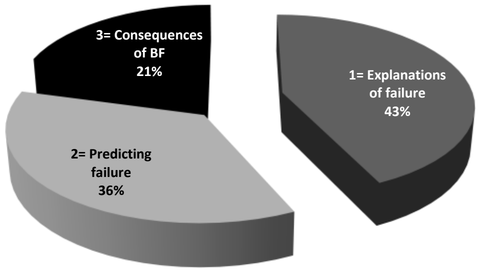

Figure 1: Distribution of articles published on Business Failure by main sub-topic

Note: Data gathered o n the 18th of September 2013 using Scopus database. The key words used include 'business failure' or 'company failure' or 'start-up failure'.

Source: Author's own computations.

2.2.1. Predicting business failure

Business failure has been studied from different perspective/dimensions, most notably: the prediction of business failure; the explanations of such incidents (i.e., causes or factors that led to buiness failure); and the impacts or consequences of the business failure on the individual entrepreneurs. Most of the studies on business failure prediction focus on improving techniques used in predicting it (see for example, Zopoundis and Doumpos, 1999; Gepp, Kumar and Bhattacharya, 2010; Li et al. 2013; Chuang, 2013) (see Table A2, in Appendix). Other studies of business failure within this dimension explain the factors that could be used to predict business failure (Dimitras et al., 1999; Smith and Liou, 2007; Appiah and Abor, 2009; Dikmen, Birgonul, Ozorhon and Sapci 2010; Yap et al., 2011; Garcia-Gallego and Mures-Quintana, 2012).

Many authors believe that profit is a very important factor that can be used to predict business survival (Dimitras et al., 1999; Smith and Lou, 2007; Appiah and Abor, 2009; Garcia-Gallego and Mures-Quintana, 2012). Though the aim of some of these studies is to test the accuracy of different techniques that could be used to predict business failure, they observed that the profit generating capacity of a company is an important factor in determining its risk level. Nevertheless, Smith and Lou (2007) found that the predicting power of profit differs across industries. Appiah and Abor

(2009) went further to explain that net profit margin is preferable to gross profit margin in predicting a business failure.

Other factors found to be useful in predicting business failure are liquidity position, debt capacity, working capital, productivity, credit. Distinct studies (e.g., Dimitras et al., 1999; Smith and Lou, 2007; Yap et al., 2011; Garcia-Gallego and Mures-Quintana, 2012) established that these factors could help a credit manager to assess the risk of failure of a firm. For example, Yap et al. (2011) explained that less cash, less current assets, more current liabilities, less working capital, excess debts and losses in firm operations which could result in low net income were attributable to failed companies. Dikmen et al. (2010) took things further by assessing companys failure risk using non-financial indicators such organisational and managerial factors, and found them to be equally important to the financial indicators. These include the efficiency of the value chain at the corporate level, the appropriateness of decisions made by the management and the availability of intangible resources. All these combined can help, according o Dikmen et al. (2010), to predict firms' survival chance.

According to Dikmen et al. (2010), value chain includes those factors that have to do with lack of management competence and weakness of value chain analysis, strategic planning, environmental scanning, and financial management which increase the bankruptcy likelihood. Also they refer to intangible resources as those factors such as organisational knowledge, technical and technological capability, relations with clients and/or government, and company image. These were believed to be important sources of competitive advantage, thus lack or weakness of these factors may hinder companies from getting contracts hence leading to financial distress (Dikmen et al., 2010). Finally, decision making processes of any company are a crucial element because, as Dikmen et al. (2010) explained, such decions concern restructuring and reorganisation, saving non-value adding activities, poor investment decisions, and wrong level of diversification.

2.2.2. Explaning business failure

Explanations of factors that determine business failure are divided into external and internal factors. Internal factors are further divided into firm related and entrepreneurs related factors. Most factors that are responsible for business failure in the literature (cf. Table A3, in Appendix) seem to be firm - related determinants, most notably age of the organization, size and location among others. Factors such such lack of competence, lack of attention, overconfidence, and founders' education are classified as entrepreneurs' related factors. Under external factors are included macroeconomic factors, bank finance, and customers' dissastisfaction.

Factors such as macroeconomic environment could have a significance effect on the business failure rate (Barker III, 2005; Hunter and Isachenkova, 2006; Liu, 2009; Ropega, 2011; Yang; Chan and Li, 2010; Zhang, 2013). Barker III (2005) explained that such macroeconomic factors could be a result of changes in technology, a recession, the moves of competitors or numerous other causes that hurt the organization's ability to achieve its mission. Hunter and Isachenkova (2006), Liu (2009), Zhang et al. (2013), on the other hand, argue that, among macroeconomic determinants, interest rate is the critical factor of business failure since exhorbitant nominal interest rates will affect firms' capacity to roll over debt thus inducing firms' collapse. Adopting a brighter prospect, Yang et al. (2010) state that economic development as a whole will lead to reduction in the business failure.

In terms of finance, Saridaki et al. (2008) and Liu (2009) suggest that access to finance is critical for the survival of new firms and therefore banks, as major providers of such funding, play a crucial role. Notwithstanding, Liu (2009) explained that a relaxed credit control tend to contribute to higher levels of business failure. Accordingly, a rise in credit availability will result in excessive debt burdens, thereby constraining future (when all the debts have to be paid) available cash flows, thereby pushing up business failures. Density of firms in a given industry generating fierce competition which might explain firms' mortality rate as mortality or risk of firms' collapse climbs with density (Yang et al., 2010; Puig et al., 2013). Legitimacy is also another determinant of firms' survival or business failure. As noted by Kale and Arditi (1999), firms' survival chance increases as they gain legitimacy from their environment which includes clients, subcontractors, material vendors, and financial institutions and sureties.

Finally, according to Ramachandran (2003), customers' dissatisfaction is also an important determinant of business failure. This is because it is believed that the attractiveness of an entrepreneurial opportunity depends on the extent to which it eliminates customer dissatisfaction with the existing alternatives.

Looking at firms related factors, age of the organisation is considered to be one of the factors leading to the organization demise (Kale and Arditi, 1999; Lin et al., 2008; Liu 2009; Yang et al., 2010; Puig et al., 2013). Lin et al. (2008) found that firms that have been around for some time and are larger in size in terms of resources have a higher chance of survival. Similarly, Liu (2009) explains that some of the new firms, which have a competitive disadvantage and are less able to withstand the problems encountered in their operational and financing activities, get into financial difficulties a few years later, after the incorporation and eventually go into bankruptcy. Also, according to Yang et al. (2010), the mortality rate is belived to be quite high at short tenures for business especially in the first and second year. Such arguments stem from the fact that older companies have more business experience and well-established social relationships, hence they are more stable and less likely to be defeated in the fierce competition. More so, it is believed that at a young age for any organization, they are susceptible to failure due to lack of adequate experience to handle competitions in the market place (Leiper and Stear, 2009; Mahamid, 2012). Kale and Arditin (1999) also noted that the decline in the probability of business failure among older organizations could be associated with the organizational learning, which makes the organization to be more efficients over time. Puig et al. (2013), on the other hand, believe that age could be a determinat to business failure through innovation and technological density as the level of technology density of younger firms might not be so significant to allow them compete successfully.

In terms of size, Lin et al. (2008) and Yang et al. (2010) found that firms that are large and have accumulated enough resources have higher chances to survive and are in a better position to manage risks than the smaller ones, thereby reducing their failure probability.

The inappropriate location of the firm might, according to to Puig et al. (2013) and Leiper and Stear (2009), be an important factor influencing the failure of the business. Specifically, the lack of accessibility to the targeted market could hamper the growth of any business. In a related manner, Mahamid (2012) also found that limitation of movement of goods and services to the firm could have a negative impact on the performance of the firms.

Studies such as the ones of Kale and Arditi (1999), Leiper and Stear (2009) and Puig et al. (2013) observed that structure or organization of a firm (i.e., organization learning, overcapitalisation) could have a major impact on the firm survival. For example, according to Kale and Arditi (1999), the learning that takes places within the organization will greatly reduce the probability of failure in the organization.

Also Leiper and Stear (2009) noted that overcapitalisation of a business venture will lead to excessive debt burden thereby inducing the probability of default. Furthermore, Puig et al. (2013) evidence that business failure is increased by some risk factors relative to the structural characteristics of the firms, for example firms that specialise in low technology activities.

Business failure could also be explained by firms performance in terms of finance, namely repetitive structuring, large scale asset downsizing, high level of debt, failure to cut cost, lack of financial control, low margins of profit and stock market performance (Lin et al., 2008; Oliver et al., 2008; Liu, 2009, Yang et al., 2010; Mahamid, 2012). Lin et al. (2008) explain that repetive restructurings, especially occurring during a recession could mean that the firm is dealing with severe problems, and raise the question of whether the firm can survive long enough to reap the benefits of its restructuring. Also, in terms of asset downsizing, they found that firms with large layoffs face increased risk of failure given that the firms are already in a position of incurring losses. This suggests that even though employees' reduction might be necessary to deal with poor performance of a firm, a large scale of layoffs sends a negative signal about firms' future prospects to investors making them react negatively to such news which could result in decline in investment opportunities (Lin et al., 2008). Oliver et al. (2008) found that lack of financial control could jeopardize the success of a firm, for example, lack of adequate portfolio management and marketing. Furthermore, according to Liu (2009) and Mahamid (2012), profits are crucial to the survival of any business. Mahamid (2012) explains that low profit margin due to competition can induce business failure. Liu (2009), on his side, suggests that profit can determine whether a company will collapse or not as a company that is not generating enough profits will have a poor liquidity position, hence will not be able to meet interest payment obligations. This will trigger debt defaults in the short run, and in the long run, if it with persists with a low or negative profits, such firm is bound to go into bankruptcy.

Firm performance in terms of labour related issues could also be significant in explaining business failure. According to Lin et al. (2008) when there is massive workforce reduction and outsourced employment, the performance of the offshore providers can deeply affect the outsourcing company's quality, output, and reliability.

Firm performance in terms of innovation and product development could also have a marked impact on firm's survival. For example, poor product development process, poor manufacturing performance, institution innovation trauma, wide product portfolio, material costs, if not properly handled could lead to demise of a company (Oliver et al.; 2008; Moldenhauers-Salazer and Valikangas, 2009). In concrete, persistent inability to develop products that hit the right market and lack of sufficient fund to support product development is a negative signal to a company (Oliver et al., 2008). In addition, lack of a management unit of the scale and shophistication to deal with the combination of complexity and weakness in the operating units will also contribute to the weakness of a firm (Oliver et al., 2008). Furthermore, Moldenhauers-Salazer and Valikangas (2009) point that innovation trauma could be caused by lack of morale after a new innovation has been introduced and it failed to meet the expectation.

In terms of those factors associated with the entrepreneurs that could further explain the causes of a business failure, we have lack of competence, lack of attention, unforeseen and unexpected results, founders' education, lack of experience, flaw selection of target markets (cf. Table A3, in Appendix).

Heine and Rindfleis (2013) used two scenarios to explain incompetence, namely malabsorptive incompetence and maladapted competencies. Malabsorptive incompetence refers to when organizations employ inadequate resources and have insufficient capabilities to generate competitive advantage over other firms. This could eventually lead to a situation when an organisation is driven out of the market. Maladapted competencies on the other hand refer to a mismatch between a firm's competencies and the requirements of the competitive environment. Also, Chao (2011) found that paying insufficient attention to alliance partners in an alliance business could result in the management making biase decision thus leading to the failure of the business failure. Furthermore, Kletzt (2010) explained that a business could come to an end as a result of unforeseen circumstances which could yield unexpected results. Such circumstances could be as a result of failure of forcasted sales figure to meet the expectation of the company.

Saridakis et al. (2008) found that firms that are owned by entrepreneurs with an education degree are more likely to survive due to the necessary skills and knowledge they might have acquired in the course of their training. Moreover, when the entrepreneurs do not posses the relevant experience and if they also fail to select the right targeted market for a business, this could jeopardise the success of a business (Leiper and Stear, 2009; Mahamid, 2012).

Other entrepreneur related factors include overconfidence and emotional unfitness, unrelialistics assumptions in the business plan and lack of professionalism (Camillo et al., 2008; Leiper and Stear, 2009). Such overconfidence and emotional unfitness often lead to situations where business owners make poor decisions thereby having negative consequences on the business venture. In addition, and according to Leiper and Stear (2009), setting unrealistics assumption in the business plan and lack of professionalism to handle the challenges that come with businesses will have a negative impact on the survival of a business venture.

2.2.3. Consequences of business failure

The study of business failure in terms of its consequences to entrepreneurs seems to have attracted only a few studies. Such literature focuses mainly what happens to entrepreneurs after experiencing a business discontinuation, being mostly based on case study analysis (Cope, Cave and Eccles, 2004; Cricks, 2010; Cope, 2011).

For a clearer understanding, the consequence of failure is divided into 3 parts (cf. Table A4, in Appendix): learning and sense making, costs of business failure, and impact of business failure on access to capital.

Learning and sense making sense

Quite a number of authors have written on the subject of learning from failure (e.g., Cannon and Edmondson, 2001; Shepherd, 2003; Politis and Gabrielsson, 2009; Sherpherd, 2009; Crick, 2010; Cope, 2011). Learning from failure is not something that just happens. In fact, Cannon and Edmondson (2001) explained that, the process of learning from failure involves identifying it, discussing and analysing it, and dealing with conflict and disagreement productively. They went further to explain that identifying failure is the number one step that needs to be taken in order to learn from it. Also, by discussing and analysing it, they believe it helps entrepreneurs involved to understand and communicate the relevant lessons. They also suggest that, the ability to cope with conflict becomes necessary in a situation where failure involves controversy or disagreement about its causes. In view of this, Shepherd (2003) suggests that entrepreneurs can learn from business failure if they can use information about why their business failed to adjust their existing knowledge of how to effectively manage their own business.

Cope (2011), analyzing 8 entrepreneurs (4 from UK and 4 from USA), who have past business failure, inferred that business discontinuation can serve as a basis through which entrepreneurs stimulate distinctive forms of higher-level learning that prove fundamental to the entrepreneur in both personal and business terms. However, he went further to explain that for higher-level learning to occur, there must be self-critical reflection and reflexity whereby personal assumptions and behaviours are challenged. Whereas the failure experience can promote such reflection, he believes, it is unlikely to occur immediately; hence such entrepreneurs need time to recover from the hurt and trauma generated by failure. Such learning can be categorised as learning about oneself, the venture, network/relationships and venture management. Cope (2011) found that it is possible for individuals to rediscover themselves after a business failure experience (i.e., having a better sense of themselves). In terms of learning about venture, this author found that, some participants were able to learn more regarding the issue of timing and being out of sync with the market. Also regarding network/ relationship, he found that it is possible for entrepreneur to have both good and bad experiences from the partnerships kept as a result of business failure.

Furthermore, in terms, of venture management, it is possible for entrepreneurs to gain enough knowledge in order to be better equipped to manage a venture in the subsequent business venture (Cope, 2011).

Shepherd (2003), on the other hand, used a conceptualized approach to explain that, the negative emotional response to the loss of a business represents grief that, while present, will diminish individuals' ability to learn from the events surrounding the loss, especially when there is considerable feedback information. Consequently, learning can only take place if such individuals have fully recovered from grief. This notion is similar to Cope (2011) who believes that critical reflection of a business failure may be hampered by hindsight bias which results from the distortion of the past.

In addition, looking at how individuals handle failure and learn from it, Shepherd (2009) concluded that the opinion that people with more emotionally intelligence may be in a better position to recognize and use their grief to process information about their loss. Consequently, they are more likely to effectively use grief recovery strategies to make sense of failure and quickly recover and learn from the failure experience. Politis and Gabrielson (2009) and Ucbasaran et al. (2009) used a quantitative approach, involving 231 cases in Sweden and 630 cases in USA, respectively, to investigate the attitudes of entrepreneurs toward failure. They found that experienced entrepreneurs who have participated in prior start ups or entrepreneurs that have experienced a business closure are more likely to develop a more favourable attitude toward failures. Thus, they conclude that critical career experience is a major determinant of how individual entrepreneurs respond to business failure. It is believed that such career experience confronts entrepreneurs with novel situations that may require development of new ways of coping with problems and opportunities.

Furthermore, according to Ucbasaran et al. (2009), entrepreneurs who cited higher levels of prior business failure experience identified more business opportunities, and conclude that business failure experience does not necessarily lead to more cautious and risk adverse entrepreneurs. However, Ucbasaran et al. (2010) used quantitative approach to measure entrepreneurs comparative optimism (570 from the UK), and argued that not all entrepreneurs learn from their past mistakes. Specifically, they found that sequential entrepreneurs become unusually optimistic after a business failure experience compare to portfolio entrepreneurs. Hence, they pointed out that sequential entrepreneurs should be encouraged to participate in schemes that help them examine the nature of their prior mistakes and successes before embarking on a subsequent venture.

Crick (2010) analyzing entrepreneurs' learning from business failure using qualitative approach (3 individuals from the UK tourism sector) explained some of the lessons that can take place after a business failure. These include, proper research and effective planning, additional entrepreneurial experience, which could help entrepreneurs to implement more effective business practices that will lead to identifying, and exploiting new opportunities.

Other important lessons, according to Crick (2010), include being able to take into the consideration the demand of work/life to avoid breaking down of the partnership. Also, a need for fair degree of hard work and initial capital on ground to be put into the venture, and more importantly, a need to undertake a good deal of initial research gathering and planning. In the unamed review to Finkelstein's (2005) study, published in *Strategic Direction*, it also documented some of the lessons that could take place as a result of business failure, namely: humility, listening and good judgement.

It is emphasised that there must be room for humility on the part of the managers by taking into the consideration the opinions of others who disagree with them as this can be the best advice ever provided and does not always indicate a lack of loyalty. It is also pointed out that listening is a vital skill, whether to customers, employee's or one's inner conscience. Also, in terms of judgement, it is suggested that executives should know themselves and the basis on which they make interrelated moral and commercial judgment.

Costs of business failure

Some of the costs that are likely to be incurred after a business failure includes: financial cost, social cost and psychological costs, also there is employment and entrepreneurial cost of failure (Cope, 2011; Ucbasaran et al., 2013).

It is believed that, at a minimum, business failure is bound to impose financial cost on the entrepreneurs. This could be in form of a loss or reduction in personal income or salary, sometimes, a huge debts could be incurred which may take years to clear (Cope, 2011; Ucbasaran et al., 2013). Such financial cost could be higher in a situation where entrepreneurs invest more aggressively. For example, Arora and Nandkumar (2011) analysing opportunity costs and entrepreneurial strategy found that in a sample of 286 entrepreneurs, those with high opportunity costs are likely to be more impatient for success and invest more aggressively in their ventures, thereby increasing the chances of large financial gains or large financial losses. Hence, in the event of business failure, the entrepreneurs may incur significant financial costs.

However, not always financial costs are detrimental to the well being of an entrepreneur. For example, Cope (2011) illustrated that in a situation where the entrepreneur is a wealthy individual, the impact is not likely to be damaging on their finances under such circumstances.

In term of social costs, Ucbsaran et al. (2013) gathered that such costs are in form of personal and professional relationships. These include breakdown of marriages and close relationships following failure, it also includes loss of an important social network of mutual obligations. For example, Sutton and Cahallan (1987) in analaying how Chapter 11 of the federal bankruptcy code spoils the image of top managers and firms (from 4 firms in the USA) argued that the quality of relationships after a business failure can be strained due to the stigma associated with business failure.

Furthermore, Shepherd and Hynie (2011) explained that entrepreneurs that experienced bankruptcy are more likely to adopt a negative view of self, especially if they identify strongly with the organization. In addition, Harris and Sutton (1986), by analyzing how partying ceremony in dying organization helped people who have experienced business failure by providing emotional support to cope with their loss, found that for some entrepreneurs, closing down a business was equivalent to divorce or loss of a spouse. In addition, Cope (2011) also found that feelings of guilt or impotence aggravated a sense of loneliness, heightened anxiety and increased withdrawal due to an inability to share concerns with others.

Looking at the psychological cost of business failure, these could be divided into emotional and motivational costs (Ucbasaran et al., 2013). Examples of emotional costs include pain, remorse, shame, humiliation, anger, guilt, and blame as well as the fear of the unknown. Cope (2011) observed that for individuals who have witnessed failure the emotional impact seems to be the hardest, as they described failure as emotionally draining. According to Ucbasara et al. (2013), the motivational effect of failure can be further divided into two. Firstly, failure event can generate adverse motivational impacts such a sense of helplessness, and diminishing individuals' beliefs in their ability to undertake specific tasks successfully in the future (Shepherd, 2003). Secondly, experiencing failure has been found to lead to a situation where entrepreneurs compensate for self definition shortcomings and reassure themselves that they are capable of achieving self definition goals (Brunstein and Gollwitzer, 1996, in Ucbasaran et al., 2013).

Also, in terms of physiological costs, Cope (2011) documented that, for some entrepreneurs in the event of business failure, they become extremely stressed and depressed and also experience physical exhaustion. This could sometimes lead to high blood pressure and needs to seek medical attention. In addition; there is entrepreneurial cost of failure (Cope, 2011). This is a situation where entrepreneurs continue to be pessimistic in their future endeavour in terms of risk taking. For example, when entrepreneurs who have witnessed a business failure become less optimistic and decide to take less risk because of the fear of unknown (Cope, 2011).

Ucbasaran et al. (2013) went further to explain how the financial, social and psychological costs described above are interrelated. They established that there is a link between financial and psychological costs. For example, where failure of business is inevitable, delaying such incident could help the entrepreneur to be psychologically prepared for the incident, but could also lead to additional financial costs. Under certain circumstances, delaying business failure can help balance the resulting financial and psychological (i.e., emotional) costs, thereby enhancing the entrepreneur's overall recovery and the chances of subsequent entrepreneurial action (Ucbasara et al., 2013). Also, these authors explained that there could also be a link between social and financial costs. For example, the social stigma from business failure could prevent entrepreneurs or may make it hard for him to raise funds for future endeavors and may even struggle to gain subsequent employment. Hence, one can conclude that if social cost of business failure could be reduced, perhaps, the financial cost will be reduced.

In terms of the link between social and psychological costs, they added that where entrepreneurs have strong ties with their venture, they are more likely to blame themselves for the failure, and this could have psychological effect on them. This could also go vice versa, for example, psychological costs could also have impact on social costs, i.e., where entrepreneurs due to emotion in term of grief after a business failure leads to withdrawal and isolation (Ucbasara et al., 2013).

Impact of business failure on access to capital

No much evidence regarding whether entrepreneurs have difficulty to access capital after a business failure exists. The issue of availability of funds to the entrepreneurs is a very crucial one. Beck (2013) documented that financial deepening can have a pro-growth and pro-poor effect, and that by alleviating SMEs' financing constraints, it will enable firms' entry and entrepreneurship, promoting a better resource allocation. Beck et al. (2009) and Samujh et al. (2012) argued that access to finance has become increasingly difficult, particularly for new and service-based industries without tangible assets to use as security. Considering the difficulties surrounding the issue of availability of capital to entrepreneurs, one can expect that it will only get worse in the event of business failure when such entrepreneurs decide to embark on subsquent business adventure. For example, Ucbasaran et al. (2013) noted that business failure could create a constraint in respect to employment opportunities and access to future resources. As such, it will make it difficult for the entrepreneurs to gather the much needed financial resources for future business opportunities. The relationship between business failure and access to capital could go hand in hand, in as much as business failure could create barrier to having access to resources, not having enough resources could also lead to business failure.

Franco and Haase (2009) explored failure factors in 8 portuguese small and medium-enterprises and found that limited access to capital as one of the major causes of failure. Cope et al. (2004), notwithstanding, seem to have a different perspective. Using a snowball sampling method to look into the perceptions and attitudes of 6 UK and US venture capitalists (VCs) on the phenomenon of venture failure, the study looked into whether entrepreneurs who have experienced failure are automatically considered black marked by VCs. They found, somehow surprisingly, that the entrepreneurs' status was not necessarily the most important factor in the VC's decision-making process, even when considering proposals from entrepreneurs who have previously experienced failure. The quality of the concept, instead, emerged as the most critical factor.

The above research found that when VCs perceive entrepreneurs as 'weak' they often supplement him/her with an experienced CEO. In addition, the study gathered that if the entrepreneurs could provide a sensible and coherent reason for the failure, by recognizing their own limitations and be willing to 'stand aside' if necessary, then the ability to receive future VC support is not jeopardized. Also, an important note in this study is that VCs do not always perceive entrepreneurs to be the primary cause of venture failure; other reasons for the failure include external factors that are outside the control of both the entrepreneur and the VC. They concluded that an entrepreneur who ‘gets an exit’ in times of market turbulence can be viewed as a relative success, even if the outcome results in a loss to investors. A very interesting insight in this study is that, it appears that, VCs from UK appear to be very hostile towards people with business failure, while those from the USA tend to be more forgiving and tolerant towards them.

2.2.3 Summary and critical analysis of the literature

The definition of business failure is a complex one, and there seems not to be a consensus in this regard. These definitions are documented in Table A1 (Appendix 1). Some authors have viewed business failure in terms of bankruptcy, some have viewed it in terms of cessation of the business, not meeting owners’ expectation, while some others have defined it by including bankruptcy, cessation and not meeting owners’ expectation. For the purpose of the present research, we will adopt a definition of business failure as broad as possible in order to include the diversity of situations emerging from our case studies.

The existing literature on business failure points to three streams of research: prediction, explanation, and consequences. As shown, the literature on consequences of business failure is still rather underexplored. Hence, this constitutes the basis of our research. Our theoretical framework on consequences of business failure will involve and analyse three key dimensions: learning and sense making from business failre, costs of business failure, and the impact of business failure on entrepreneurs’ access to capital.

Many findings on the consequences of business failure are associated to learning and sense making (Cannon and Edmondson, 2001; Shepherd, 2003; Politis and Gabrielsson, 2009; Sherpherd, 2009; Crick, 2010; Cope, 2011), as we synthetized in Table A4 (in Appendix). A major criticism in this regard is the fact that extant studies failed to detail and adequately explain how the learning and sense making helped entrepreneurs to improve their subsequent business venture. Notwithstanding, some few authors (e.g., Crick, 2010; Unknown author, 2005) evidenced how the lessons from the previous ventures helped owners to identify new business opportunities. But Crick (2010) only considers two case studies, which according to Cope (2011) is clearly insufficient to have a proper account of the phenomenon.

Secondly, no much literature exists on the impact of business failure on entrepreneurs' access to capital. The only study we found on this subject is that of Cope et al.'s (2004), which analysed the perception of venture capitals (VC's) on business failure and found that entrepreneurs' past business failure does not necessary stop the VCs from financing entrepreneurs. However, this study analysed only the perception of VCs on entrepreneurs' business failure, not considering the entrepreneurs' perspective and personal outcomes.

Similar to existing studies on the consequence of business failure (Cope et al., 2004; Crick, 2010; Cope, 2011), we plan to adopt a qualitative methodology, but instead of focusing on entrepreneurs located in developed nations (e.g., the UK and US), we will focus our study on developing nations, namely Nigeria and South Africa.

3. Methodology

3.1. The option for qualitative methods

Given that our research question requires an indepth analysis of the consequences of business failure, it will mostly make use of qualitative research methods. The qualitative research method is the most adequate for investigating the why and how of decision making, not just what, where, when (Denzin and Lincoln, 2005). As Yin (1994) emphasizes, when how and why questions are more explanatory, the most suitable research strategy is to use case studies. He furthers explains that such questions deal with operational links needing to be traced over time rather than mere frequencies or incidences.

Thus, we will analyse a four case studies of business failures in two distinct settings in terms of social and institutional context, most notably regarding capital/financial access - Nigeria and South Africa. Case study techniques provide sufficient depth of data to allow a meaningful analysis providing situated insights, rich details and thick descriptions (Jack and Anderson, 2002).

3.2. Selection of the cases studies, PEST analysis and data gathering process and

As referred above, access to credit can be an important consequence of business failure. Thus, focusing on this outcome of business failure, we opted for selecting the cases located in two distinct settings, Nigeria and South Africa. These countries were chosen because of the following reasons:

South Africa represents relatively a more favourable setting in terms of access to credit with a score of 28 out of 189 based on World Bank doing business survey released for 2014. In the case of Nigeria, it represents a more difficult setting in access to credit with a score of 13 out of 189 according to World Bank doing business survey (2014).

To get a deeper view of the situation of the two countries such that will allow for a more comprehensive analysis, we opted for PEST analysis. Materials which include journal articles, i.e., from *Journal of African Business* (JAB) over the last ten years are been critically reviewed, synthesized and expanded to gain an insight into the macroeconomic environment of each of the country.

PEST is an acronym for political, economic, social and technological analysis. It can be considered as macro-environmental factors and its usefulness is based on the assumption that the success of a particular organization, business or management cannot be understood without having the information relevant to the specific business environment (Buchanan and Gibb, 1998). Business environment may be defined as the nexus of policies, institutions, physical infrastructure, human resources, and geographic features that influence the efficiency with which different firms and industries operate (Eifert, Gelb and Ramachandran, 2005).

The use of PEST analysis includes applying it to analyse the position of a particular organization or industry sector within a particular business environment to using it to analyse the viability of general management solutions in a business environment. Similar to the work of Peng and Nunes (2007), PEST analysis here will be used develop an in-depth understanding of the macroeconomic situation of the two countries of interest (Nigeria and South Africa) with the expectation that it would generate more in-depth and meaningful findings from the two countries.

3.2.1. PEST Analysis for Nigerian economy

Political Dimension

The political situation in Nigerian can be described as very uncertain. Fagbadebo (2007) asserted that the Nigerian state is a victim of high-level corruption, bad governance, political instability and a cyclical legitimacy crisis. This situation has plunged development performance in Nigeria into the abyss and it is very unlikely that such environment will be conducive for any business venture. More recently, Onyenekenwa (2011) gathered that failed development visions, abandoned development programs and inefficient policy, which are products of corruption, are common problems that mitigate against development in Nigeria. He went further to emphasise that such situation has serious implications for African business development at large since Nigeria accounts for one fifth of the entire population of Africa.

It is often said that sound business regulations are a basic foundation of a good investment climate. Taxes on business has been a source of concern in Nigeria, although according to Doing Business Report in 2014, the average business tax rate on business in Nigeria was about 33.8 percent, which is well comparable with other

African countries such as Rwanda, Ghana and South Africa. Nonetheless, there is still a serious concern underlying the issue of tax administration in Nigeria, specifically the issue of multiple taxation (Onyeukwu 2010; Pitigala and Hoppe 2011; Ojeka 2011; Oseni 2014). According to Pitigala and Hoppe (2011), multiple taxation is a situation where the same asset or event is taxed multiple times by different jurisdictions. Such jurisdiction includes federal, state and local as well as Ministries, Departments and other authorities in the country. Evidence from the mentioned studies indicates that in Nigeria, there appears to be high incidence of double taxation. In addition, it appears the rate of taxation in Nigeria is in particular high for small business owners (Pitigala and Hoppe, 2011). For example, the same study found that the agriculture sector which comprises relatively smaller firms paid relatively higher incidence of pre-tax profits around 54 percent, which is indicative of the regressive impact of taxes.

In addition to the multiple taxation and regressive form of taxation, there is a problem of lack of proper enlightenment or education about tax related issues as well as high cost of compliance. Such compliance costs include costs of filing, resources spent on external tax consultants, gifts and unofficial payments to government appointed tax consultants and other officials (Ojeka 2011; Pitiga and Hope 2011).

Nevertheless, in terms of labour regulation, it appears there is a relaxed labour regulation policy for business organisations in Nigeria and the labour regulation tend to favour the employers more than employees. For example, a study by Muneno (2012) on Sub Sahara African countries found that labour regulation was least rigid in Nigeria and nine other countries including Botswana, Burundi, Egypt, Eritrea, Gambia, Mauritius, Namibia, Uganda, and Zimbabwe.

Economic Dimension

The World Bank Nigerian economic report in May 2013 stated that there is annual growth rates average of over 7 percent during the last decade making Nigeria to be one of the fastest growing economies in the world. However, according to the same report, the growth is yet to be translated into better economic and social welfare for its citizens. For instance, generally, the issue of finance is still a major problem to the business owners in most African countries including Nigeria, and sadly enough the governments do not seem to be doing enough to address the issue. An earlier study by Biekpe (2004) concluded that in most Sub African countries, regarding micro lending activities, banks, business and developmental organisations receive little support from their central government. Also, it is a common practice in Nigeria that a lot of business owners boycott accessing credit through bank finance due to difficulties in loan processing and exhorbitant interest rates. A more recent study by Umoh (2006) on credit institutions in Nigeria confirmed that 61.3 percent of the firms obtain loans from informal sources while about 30 percent did not apply for loans at all due to inadequate collateral security, difficult loan processing procedures and high interest rates. However, the larger firms were found to have easy access to finance compare to the small scale business in Nigeria, as confirmed by a study by Ogujiuba et al. (2004). Although, this situation is not surprising as the country's financial sector particular has witnessed drastic structural changes. According to 2013 IMF report on Nigerian financial sector assessment program, the crisis mainly originated from the forced consolidated of the sector between 2005 and 2006 and partly from the global economic crisis.

Furthermore, when looking at the issue of foreign exchange, the external competitiveness might be assessed by the variation in real exchange rates. In nominal terms, there is still great fluctuations in the exchange rate of dollar to naira which could sometimes be as high as 150 naira per dollar. This has a direct impact on real exchange rate, and thus external competitiveness, making it difficult for the entrepreneurs who are dealing in import and export to secure forex.

In general, the business environment in Nigeria can be very unconducive. For example Agboli and Ekaegbu (2006) examined the business environment in southeast part of Nigeria in terms of infrastructure, access to credit, bureaucratic practices and regulatory policy and concluded that doing business in the southeast Nigeria is stressful, and so limits the entrepreneurial activities. Nevertheless, the hostile economic condition in Nigeria does not seem to deter people from going into business. A report by Herrington and Kelley (2012), for Global Entrepreneur Monitor (GEM) in 2012 indicate that the rate in which the potential entrepreneurs believe that there are good opportunities to successfully start a new venture in Nigeria is quite high and was put at 82 percent. This is relatively high when compared to other African countries such as Angola with 66 percent perceived opportunity based on the same report. In addition, the said report indicates that the

Total Entrepreneurial Activity (TEA) rate which is the percentage of individuals in an economy who are in the process of starting or are already running a new business in Nigeria was about 35 percent, this is fairly high when compare to South Africa which was put at 7 percent.

Social Dimension

There are so many social issues Nigeria as a country is battling with. One of such is the escalating population growth. Presently there are more than 160 million people living in Nigeria and have to compete directly for the limited resources that could have been used to generate income. According to Onwuka (2006), a considerable proportion of the nation’s resources are being consumed instead of accumulated for development purposes. The result of such situation is the high level of insecurity being experienced in the country and could further worsen the not so conducive business environment. In the case of unemployment, the situation in Nigeria is quite alarming. The World Bank’s finding in Asaju, Arome and Anyio (2014) put the unemployment rate in Nigeria at 22 percent, while the youth unemployment rate is 38 percent. In addition, there are challenges in term of human capital development, in Radwan and Pellegrini (2010) report for World Bank on knowledge, productivity and innovation, it explained that Nigeria is still contending with issues such as lack of access to education mostly by the people in the remote villages, lack of quality education as well as the educational sector not being well funded. This has resulted in the literacy level to be quiet low in the country, the UNESCO (2012) reported the literacy level of Nigeria among the adults above 15 years of age to stand at 56.9 percent as at 2010. The problem is further compounded by a large number of out-of-school-children estimated at over 7 million which is 10 percent of the global total (UNESCO, 2012). Hence the rate of enrollment in tertiary enrollment is quite low when compared with other African Nations. Radwan and Pellegrini (2010) rated the tertiary enrollment rates in Nigeria as 2.6 out of the score of 6.

Technological Dimension

Achimugu, Oluwagbemi and Afolabi (2009) noted that since IT became commercial in the early 1990s, it has spread much more rapidly in developed countries but generally slowly in developing countries. Their study on Nigeria shows that only a few organizations in the economy have adopted IT. Although an earlier study of Ehikhamenor (2003) found that almost all the banks had an IT policy, with the intention of meeting organisational goals, to secure competitive advantage, and to be up to date. However, he concluded that only about 54 percent of them actually achieved some measure of successful implementations and the expected benefits of investment in IT were realised in only a relatively few number of banks.

Furthermore, in the Nigerian economy, it appears the policy makers are not doing enough to encourage innovation. A study by Abereijo, Adegbite, Ilori, Adeniyi and Aderemi (2009) on the manufacturing companies in the Southwestern of Nigeria found that the key information sources for innovation among these companies are not technology. The sources they found were customers, suppliers of equipment and machinery, seminars, training, conferences, market research and business associations. They concluded that none of the external inputs that the companies needed for internal learning and innovation come from government agencies. In addition, the report by AU-NEPAD on African innovation output for (2012) indicate that Nigeria only spent about 0.2 percent of its GDP on research and experimental development, which compares rather unfavourably to its counterpart South Africa with about 1.05 percent of its GDP being spent on research and innovation. More so, the area being covered for the research did not include the business sector which is supposed to be the bedrock of the nation.

3.2.2. PEST Analysis for South African economy

Political Dimension

The transitioning of South Africa from apartheid regime to a political regime has brought quite a drastic change in form of new labour laws and government policies and legislation in the past few years. South Africa has enjoyed a relative peace and and political stability to an extent (Fedderke and Simkins, 2012). In fact, the World Bank (2013) described South Africa as a stable, multi-racial democracy with a vibrant civil society.

Also, in terms of policy formulation, they seem to be doing well in this regard. They have been able to establish vibrant programs for the small scale business owners. For instance, within the macroeconomic context provided by the Growth, Employment and Redistribution (GEAR) strategy, the specific framework for SMME development was established in the white paper on small business (Rogerson, 2004). Hence this has led to the launching of a range of new support institutions and initiatives for small scale businesses in the country. The aims of those institutions was to assist the small scale business sector in terms of technology support, research and development support, literacy and numeracy training, and access to basic information. Although whether all these initiative programs have achieved their aim is another question. As Rogerson (2004) pointed out, even though there might have been some progress in terms of increase in the number of small scale businesses, it would be grossly misleading to take indicators of a net growth in the numbers of SMMEs as an index of the success of government SMME programmes. The author believes that the larger numbers of new SMME births could probably be a result of the failures of the formal economy - people setting up informal and microenterprises in the absence of formal work opportunities.

Despite all these initiatives by the government to promote the SMMEs, there are quite a number of political issues that exist in South Africa. For example the issue of land redistribution which is of importance to those who want to go into farming business. According to Ortmann (2005), land claims prevent investments in land improvements until the claims have been settled, hence slow progress in settling claims, therefore, has a negative effect on farm competitiveness due to lower productivity. In terms of labour Law, South Africa adopted very restrictive labours law that generally benefit employees, this has resulted in higher wage and transaction costs for employers (Ortmann, 2005; Schoeman, Botha and Blaauw; Natrass 2014). Hence this could have a negative impact on the business start- ups. Looking at tax incidence in South Africa, the situation looks similar to that of its Nigeria counterpart. A study by Smulders and Stiglingh (2008) confirms that the compliance costs of tax on businesses in South Africa are regressive, they found that the smaller the business, the heavier the burden. Example of such costs include time spent by business owners in understanding and applying the rules, record-keeping costs, payments for the expertise of professional, costs postage, telephone and travel in communicating with advisers or the tax authorities.

Economic Dimension

According to the report of World Bank (2013), the South African's economic growth rate in 2012 was 2.5 percent with the expectation to rise to 2.7 percent in 2013. However, since the South African economy has close links to the world economy, it has recently experienced some set back, resulting in weakened growth prospects, lower fiscal revenues, lower and more volatile valuation of the rand, and dampened its external financing (World Bank, 2013). Earlier studies on the macro environment that determine the success and failure of SMMEs, i.e. Shelley van Eeden, Viviers and Daniel (2004), Robinson (2004) confirmed that factors such as interest rate, inflation are important to the success of SMMEs in the South African context. For example, Shelley van Eeden et al (2004) gathered that factors such as inflation and interest rates were identified as having the greatest impact on the success of business venture in South Africa. However, they found that difficulty in obtaining finance was not regarded as the most serious problem facing small businesses in South Africa. In addition, in terms of their financial system, it is believed that they can well compete with other international financial system in terms of development and sophistication. Wajid (2008) confirmed that their financial system is fundamentally sophisticated, diversified and spans a broad range of activities that are supported by an elaborate legal and financial infrastructure and a generally effective regulatory framework.

Social Dimension

The Post-apatheid South Africa is faced with quite a number of socio-economic challenges such high rate of HIV/AIDs epidemic, high crime rate and unemployment rate (Shelley van Eeden 2004 et al; Robinson 2004; Mubanguzi and Mubanguzi 2005; Fedderke and Simkins, 2012). The population of South Africa is about 50 million and about 17 percent of the people between 15 and 49 years of age are living with HIV/AIDS (AU-UNAIDS, 2012). This could have a great consequence on the demography of the country which will in turn affect the investment activities. Other socio-economic issues include issues such low level of education, inequality and overcoming legacies of apartheid (Robinson 2004; Mubangizi and Mubangizi 2005). Also, Robinson (2004) gathered that many South African are still going around with the mentality of apartheid era as there is still cultural difference between blacks and whites. In terms of employment, according to the recent World Bank survey for unemployment in South Africa for 2012, the unemployment rate was estimated to be 25 percent.

Similarly, in Rankin and Schöer (2011), it was concluded that employment issues are the most serious problems facing South Africa currently. Among these are the problems of unemployment, as well as underemployment or lack of decent work for the already employed, and this is sometimes compounded by labour markets that are generally less than efficient in job search and matching. In the area of human capital development, South Africa still has hurdles to cross. According to Stuart (2012), although, South Africa is one of the emerging economics with the likes of Brazil and Russia, but there is still problem of human capital development which is as a result of apartheid regime characterized by lack of equality in educational systems and opportunities. However, in general, the literacy rate among 15 to 24 years adults was put at 91 percent as at 2009 (UNDP, 2010). This was based on the educational achievement up to grade 7. In addition, regarding the tertiary education, Radwan and Pellegrini (2010) put the tertiary enrollment rates as 3.2 out of 6.

Technological Dimension

There is no doubt the spread of technological innovation has changed the business face in some of the African country South Africa being top on the list. Mayor, Hera and Ruiz (2012) did a study on national technological innovation capabilities in African countries. Their focus was on technological factors such as governmental and business technology effort, technological intellectual property protection and innovation results. Their results show that South Africa enjoys the most advanced position with outstanding performance in terms of intellectual property protection and innovation. This result is not surprising considering the efforts of their government in funding the technological innovation development. For instance, the report by AU-NEPAD on African innovation output for (2012) indicates that among 12 countries that were surveyed, South Africa has the largest gross domestic expenditure on research and experimental development which is about 1.05 percent of its GDP. The area of coverage for the research and innovation includes business enterprise sector government sector, higher education sector and private non-profit organisations. In terms of technology adoption, South Africa is also seen as being ahead of most other African countries (Maswera, Dawson and Edwards 2008). They found that in 4 major tourism nations in Sub-Sahara Africa (Kenya, Zimbabwe, Uganda and South Africa) in term of adoption of e-business concluded that South Africa top the list thereby paving the way for it to break into the global market place which has long been dominated by the USA and Western Europe.

3.2.3. Comparison between Nigeria and South Africa PEST Analysis

It is often said the success of any organization largely depends on the macro-economic environment it finds itself. By looking at the macroeconomic environment of Nigeria and South Africa, there is no doubt that they both have differences in their macroeconomic environment which could influence the outcome of businesses conducted in the two countries. Figure 2 summarises such relationships which are then discussed below.

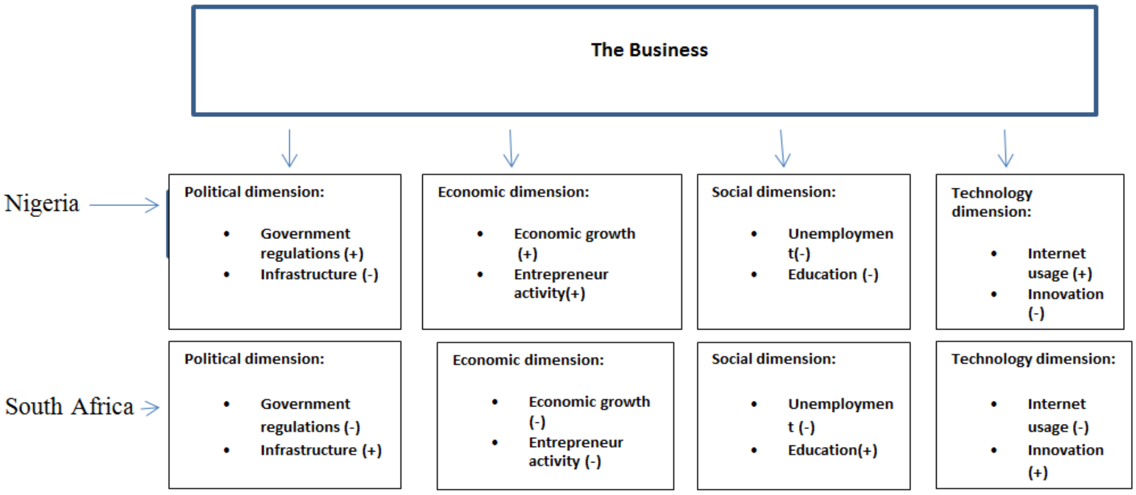

Figure 2: Pest Analysis for Nigeria and South Africa

Legend: Positive (+)[negative (-)] signs represent positive (negative) contribution that presently the given factor has to business emergence/activity in Nigeria or South Africa.

Source: Author’s synthesis

Political dimension- In the area of political situation, Nigeria and South Africa seem to be far apart. The post - apartheid South Africa has enjoyed a relative amount of stability while the situation is contrary in Nigeria. Although both countries have different political challenges they are still facing, however, there seems to be less challenges being faced in South Africa. In the area of labour legislation, South Africa is faced with more restrictive labour regulations that favour the employees.

According to the GEM (2012) report, prepared by Henrrington and Kelly, South African ranked the second worst country with the unnecessary burden of government regulations on the business owners. In the case of Nigeria, the labour legislations are not as restrictive and tend to favour the employers. In terms of provision of necessary infrastructure, Henrrington and Kelly (2012) concluded that South Africa is much ahead of Nigeria especially the provision of power supply.

Economic dimension- Looking at the economic situation, this is well connected with the political state of a country as most economic decisions are often made by the politicians. The South African government tends to have good policies for their small scale business operator as against the situation in Nigeria. Although, it appears that both countries are faced with exorbitant interest rates and volatile exchange rates; however, access to credit seems not to be an issue in South Africa as compare to that of Nigeria. Also, in terms of financial system, the South African financial system appears to be more sophisticated and stable as compare to Nigeria context that has undergone a series of structural changes. For instance Henrrington and Kelly's (2012) rated South Africa as the best in Sub-Sahara Africa in terms of availability of financial services and ease of access to loan. Although, the economic situation in South Africa seems to be more favourable, however the report of Henrrington and Kelly for GEM (2012) indicate that the entrepreneur activity rate is much lower in South Africa compare to Nigeria. There are many factors that could be responsible for this among which are fear of failure, and low perception of opportunities (Henrrington and Kelly, 2012). The situation could also be explained by the higher per capital income by South Africa, as there is tendency for the people to have more economic power, hence low level of entrepreneurial drive which leads to low level of business activities.

Social dimension- From the social dimension point of view, the two countries are faced with quite a number of social issues. In the case of Nigeria, there are challenges such as escalating population growth, high level of insecurity and degrading level of infrastructure. Whereas in South Africa, there are issues such as high prevalence rate of HIV/AIDS, high crime rate and high level of unemployment rate. Looking at the issue of human capital development, it is known that the ability of an entrepreneur to develop a business idea largely depends on the knowledge, experience and skills they acquire during the course of their study. These may be through grade school or university courses. The two countries share similar challenges in terms of education but with different factors responsible for the challenges. South Africa is facing low level of capital development mostly due to the legacy of the apartheid regime, while Nigeria is challenged by the same problem due to the negligence of the government to improve the educational sector. Surprisingly, according to Herrington and Kelly's (2012) report, the quality of Nigerian education is ranked slightly better than that of South Africa.

Technological dimension- Regarding the technological environment, South Africa is much more advanced both in the research development as well as adoption of new technology. The level of technology adoption in Nigeria is still quite low when compare with its counterpart South Africa with the government not doing enough to address the issue. Notwithstanding, a more recent report by Herrington and Kelly (2012) indicates a slight increase in the adoption of technology specifically the use of internet in Nigeria more than in South Africa.

3.3. Research question and interview's guideline

According to Cope (2011), six to eight participants are recommended for this type of study. Albeit trying to collect and analyse 6 different case studies (entrepreneurs), three from Nigeria and three from South Africa, in the end of the process we only manage to gather information on 4 cases.

The aim of this study is not to generalise findings but to gain an in depth knowledge of how business failure impacts entrepreneurs in the two different contexts in order to contribute empirically to this body of knowledge, both at the scientific and policy levels.

The selection of the 4 cases was done randomly, using several types of contacts (e.g., Linkdin, personal contacts), aiming at reaching individuals who were/are entrepreneurs from Nigeria and South Africa who have experienced at least one business failure in the past.

The data gathering process involved mainly personal interviews which were done using the email. The cases selected were purposive in nature. Specifically, the focus was on individuals who have experienced at least a business failure. Usually in purposive sampling participants are selected because they exhibit particular features or experiences (in this case business failure), that will enable a detailed understanding of the central subject researcher wishes to puzzle. In addition, as Cope et al. (2004) explain, purposeful sampling power lies in selecting information-rich cases for carrying out an in depth study. Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the research. The criteria for selecting participants for this work include the following:

- The individual must be/have been an entrepreneur, being directly involved in the creation of business/businesses that did not succeed.
- There must have been significant losses associated with the failure (financial loss).
- The reason for closure must not be personal (e.g., retirement).
- The failure must encompass one or more definitions of business failure explained in Chapter 2.

For assuring that participants cope with these criteria and qualify to partake in this study, there was a pre-screening exercise.

As explained before in the literature review chapter, the study of business failure can be divided into three dimensions: the prediction of business failure; the explanations of such incident, i.e., factors that led to business failure; and the impact or consequences of the business failure on the individual entrepreneurs. Since our aim is to assess the consequences of failure on individuals entrepreneurs, we decided to divide it into 3 parts: learning and sense making, costs of business failure, and impact of business failure on access to capital, hence the questions for the interview were structured in the same manner.

The first part of the business failure's consequence is *the learning and sense making*. To assess whether individual entreprenurs actually learn and make sense from their business failure experience, we asked them about how the incidence make them feel and how important it was for them. There were also questions such as how they reacted to not being able to continue with the business in the following months, this is important since their reaction will determine their next step of action, whether they still want to try another business venture or they simply want to give up trying. Another important question is to know what and who the participant feel is/are responsible for their business failure. This is particularly important, as it will enable us to know if the participants were able to grasp the main reasons that led to the demise of the business. In addition there was a direct question to ascertain the main lessons the participants have gained from the failure experience.

The second part of the questionnaire is the *cost of business failure*, this comprises of financial cost, social costs and psychological costs. In most cases, when there is incidence of business failure, it is unavoidable to have some sort of costs (Ucbasaran et al., 2013). To empirically confirm this, we sought to ask the question directly from the participant if there were any significant financial loses for them, we went further to ask how they managed the situation and we also confirmed if they were able to maintain their lifestly or not. Also, there were questions focusing on the social costs aspect of the business failure cost specifically regarding their partners. For example, we asked if they were still able to keep in touch with their former partners after the business failure experience; also there was a question regarding whether their personal relationship was impacted in any way as a result of the experience. Furthermore, in terms of psychological cost, the question was directed to the participants to confirm whether they were/are affected by the incidence and if they were in any way embarrassed by the failure experience. There were other questions in the area of cognitive consequences and behavioural consequences. They are equally important as they could help evaluate the psychological impact of business failure on individual entrepreneurs. In terms of cognitive consequences, we asked how the opinion of themselves were affected and also how if they feel more confident or not after the experience. Regarding the behavioural consequences, we asked if the participants consider themselves a person that takes more or less risks after the failure and also what business or personal practices have changed due to the incidence.

The last aim of this study is the impact of business failure on entreprenurs *access to capital*. To gain an insight into whether entrepreneurs's access to capital is affected by their past history we asked if they ever venture into another business after the discontinuation of the business and whether capital was a problem in their subsequent business endeavor. Furthermore, there was a question on whether the previous business failure was a contributing factor to the lack of capital in their subsequent business plan. Lastly, participants were asked how they managed to overcome the challenge.

4. Empirical results

The aim of this research is to establish what happens to an entrepreneur after a business failure experience. The analysis takes into consideration the costs business failure impose on entrepreneurs, the learning that could take place in the event of cessation of business, as well as how it impacts the entrepreneurs' ability to access capital in their subsequent business endeavour. Key learning points that arise from the findings of this study are analyzed and discussed along with the theoretical implications in the section that follows the description of the case study. While the research data otherwise remains accurate, names have been altered to protect the identity of the people involved.

4.1 Case studies from Nigeria

4.1.1. Case study 1

Learning and sense making sense

Mr Jay, a former restaurant operator, had a dream of owning a restaurant while working as a purchasing manager in a local restaurant in the city of Lagos, Nigeria. He eventually resigned his job to pursue his dream of becoming a restaurant owner having sought for finances from family and friends. He also sought for finances from banks but was denied due to issues regarding collateral securities. Like many other businesses, the business struggled at the initial stage, but the owner continued to hope that things might turn around eventually; however, this did not happen as things began to go from bad to worse. Here are the main reasons for the failure of his business as Mr Jay put it;

> *"I blame the government for the epileptic power supply, secondly I blame my landlord for asking me to go on brake because he wanted to renovate the building but refused to take me back after the completion of the renovation, I also blame the bank for failure to give us the facilities at the time we really needed it"*

Jay had to learn in a hard way that the choice of location was completely wrong; he believed that the location was not good enough for a restaurant business. Furthermore, he believed that the agreement with the landlord was very weak and not properly documented, hence, that led him being ejected in a very cunning manner. He, however, considers the experience of his business failure as positive and significant as the opinion of himself as well as his confidence was not in any way affected. In addition, he admitted that he has taken many risks after the incidence but he has learnt from the experience to be meticulous in all his dealings.

Costs of business failure

<u>Financial cost</u>

In terms of financial cost, Jay admitted that there was a significant financial loss as all his investments went into the business without being able to recover them back. This resulted into him changing his lifestyle in order to adapt into the situation. For example, his children had to be withdrawn from school due to the financial difficult he found himself after the incidence. Other coping strategies adopted by him includes cutting down all expenses, changing his accommodation and later picked up a salary job.

<u>Social cost</u>

Mr Jay had embarked on the business alone without any partners; he, however, admitted that the experience had a significant effect on his social life as he suffered some social cost due to family and friends deserting him after the incidence. Jay put it as;

> "*I felt totally battered and dejected and my personal relationship was greatly impacted because many friends and relations deserted me"*

<u>Psychological cost</u>

Jay admitted that he felt really embarrassed by the incidence but he was never affected by it as he saw it as a training phase of his life which he has learned from.

<u>Access to capital</u>

Although Mr Jay said he has not ventured into any other business after his experience of business failure, he however noted that, the failure is not the issue here. The main issues as identified by him is the lack of capital, as the Nigerian banks are not willing to give loan and when they give, the interest is usually very high, and worst of it all is the issue of collateral security which the entrepreneurs often struggle to meet.

Discussion

It is paramount that before a venture takes off there are various degrees of planning activities that include a proper research and gathering of adequate information in order to reduce the chances of business failure. Such planning is very important especially for inexperienced owner/managers as they do not have the benefit of drawing on entrepreneurial learning from past experience whether negative or positive (Crick, 2010). However, in the event of failure, substantial learning could actually take place, this has been confirmed in similar work such as Shepherd (2009), Crick (2010) and Cope (2011).

It was recognized in Jay's business venture that, that aspects of the business side of planning while obviously is important should not be considered without also taking account of the location of the business. It was found that the owner was able to draw entrepreneurial learning experiences in line with existing literature as explained in studies such as Leiper and Stear (2009), Puig et al (2013) which pointed to the fact that inappropriate location of the firm might be an important factor influencing the failure of the business, especially the lack of accessibility to the targeted market. This was actually the situation in Jay's venture as the choice of location was poor; hence he could not reach the targeted market to sustain his business.

The first implication arising from this study is that business owners should undertake the necessary planning and information gathering to reduce the risks of entrepreneurial failure. Such planning should include getting a venue in the right location where potential clients can easily be reached. In addition, there must be proper documentation and signing of necessary documents when renting a venue for the business.

In terms of costs, there is no doubt that failure can have a serious and detrimental impact on an entrepreneur's life. Such conclusion was reached in Cope (2011) and Ucbasaran et al. (2013). The findings from Mr. Jay reveal three distinctive costs that failure could have on entrepreneur which include financial, social and psychological. Jay experienced quite substantial financial loss which is basically from his personal savings and investments. The failure had a significant effect on his family life as well, as he had to withdraw his children from school, changed his accommodation as a way to cope with the challenge of failure. This finding is similar to the finding of

Cope (2011) who found that the entrepreneur's spouse and children can sometimes suffer emotional consequences from failure with acute stress and feelings of impotence radically affecting their psychological and emotional wellbeing.

However, he was soon able to find another paid job as a coping mechanism. This is not surprising, Cope (2011) asserted that failure can constrain an entrepreneur's future behaviour quite dramatically, as the financial impact alone can force people back into paid employment or hamper their ability to start another venture. As if financial cost of business failure is not devastating enough, there is also social and psychological cost as emphasized by the participant. For example, the participant expressed the social cost he experienced as "*I felt totally battered and dejected because many friends and relations deserted me*". These kinds of feelings often lead to a situation where such entrepreneurs withdraw to themselves. This is in line with earlier finding that failure can lead to a loss of self-esteem, a sudden reduction in social status and a decline in status in the individual's own eyes as well as other people's (Shephered, 2003; Cope, 2011). In terms of psychological cost, although he admitted that he felt very embarrassed by the incidence but he was never affected by it as he saw it as a training phase of his life which he has learned from, thus this further reinforces that learning indeed does take place in the event of business failure.

Looking at the impact of business failure on access to capital in the subsequent business venture, the findings from Mr Jay's case revealed that the business that did not succeed might not necessarily be an obstacle in his subsequent business endeavour, but the problem is that the Nigerian banks are unwilling to give loans and when they do, the interest rates tend to be exorbitant and there is also a problem of collateral security. The finding is similar to Cope et al. (2004) who found that the quality of the business idea and not the past history of an entrepreneur is the determinant of getting finance from official financial organizations.

4.1.2. Case study 2

Learning and sense making sense

Mr. Moore is a serial entrepreneur who was formerly residing in Nigeria and was involved in more than one business ventures before leaving Nigeria. In the course of his entrepreneurial life, he has had 2 different unsuccessful business ventures which were quite devastating to him. He explained that he felt very bad and almost lost confidence in himself as a result of the incidence. In order for him to move on, he had to do some sort of self-evaluation. He explained that the main reason why his business could not succeed is lack of basic infrastructure in Nigeria. He went further to explain that the reasons why many businesses fail in Nigeria have to do with inconsistent government policies, poor infrastructure, high cost of doing business. These often make it difficult for the local businesses to compete successfully with the imported items and services. He also explained that one the most serious issues Nigeria entrepreners have to deal with is the issue of corruption and theft of employes that sabotage good management plans.

Like the other participant from Nigeria, he also laid emphasis on the issue of bank support not being available most of the time, and when they are available, they are usually too exhibitant. This is specifically as a result of poor policies and supervision of financial sector by the Central Bank of Nigeria (CBN) so as to drive investment to key sector of the economy. In addition, he believes that the Nigeria lending policy unlike advance countries is largely base on collateral security for loans. Thus, the legal documentation for such security is long and cumbersome so much that there could be a lag between when the fund is required and when actually made available to the investor. Consequently, most Nigerian entrepreners are self funded and when the business does not succeed, they can hardly start all over again.

The main lessons he learned is not to use local technology for industrial based project. In particular, he stated that it is important to do business with the right technology. In his opinion, he believes the present level of local technology must not be relied on when setting up a business in Nigeria. Secondly he has learnt not to do business outside his area of competencies and he has also learnt to always involve himself in his business. These lessons are significant and important to him. However, he believes the experience has made him to be more confident as the incident has not deterred him from taking more risk.

Costs of business failure

Financial cost

Mr Moore suffered a significant financial loss and was deprived of his income; hence he could not maintain his lifestyle. He, however, relocated to the United States and took up a paid employement.

Social cost

The participant explained that after the business failure incidence, he still went into a business with his partner as the incidence did not affect their relationship in anyway.

Psychological cost

Psychologically, Mr Moore seems to be affected, as he recalled that he felt very embarrassed by the incidence and he almost lost his self-confidence. Although he claimed that the experience did not deter him from participating in other projects.

Access to capital

In terms of access to capital, Mr. Moore explained that he has ventured into another business after the failures he encountered. However, he claimed that the capital was not so much an issue because, though he had worked and saved money from his pay job, started a new business within his financial capability. In addition, he tried to get more involved in the new business such as to manage the little financial resources he had.

Discussion

This case study shows that planning before undertaking any business venture should be deep. Issues like using appropriate technology should not be ignored. For the partipants, he has learnt these from his business failure experiences. In addition to this lesson, he has learnt to be more involved in his own business and to also do business within his area of competence. What seems to be the basis of his business failure is the macro-economic environment. From the PEST analysis that was done earlier on, this case study has confirmed some of the issues arising from the macroeconomic situation in Nigeria. For example he emphasized that as a business owner, care must be taken in relying on the presence level of technology available in

Nigeria. This points to the fact that the availability of technology is still questionable, and the few that are available might just not be right for one's business venture.

Mr. Moore also experienced a substantial amount of financial loss. He had to relocate to another country and took up a paid employment. This situation confirms what has been found in the literature that after a business failure experience, entrepreneurs will sometimes find it difficult to face life again. Hence the participant had to relocate and start a new life to avoid the embarrassing situation he found himself. Regarding social cost, the incident does not seem to put much strain on the relationship between him and the business partner. For example, they even went into a business together again after the incidence. However, in terms of psychological cost, the participant admitted that he felt very embarrassed. Mr. Moore explained "*I felt very embarrassed and almost lost confidence in myself*".

Looking at the impact of business failure on access to capital, this participant seems to have a different opinion from the other participant from Nigeria and what is found in the literature (i.e., the entrepreneurs' past does not affect their ability to get financial resources). He explained that, in the Nigeria context, most of the small scale businesses are funded from personal savings, hence if such business does not succeed, entrepreneurs can hardly start over again. Entrepreneurs will use their personal savings to start a business not because they want to, he gave some of the reason why such situation prevails as banks' assistance not being available to entrepreneurs most of the time and when they are available, the interest rates are usually very high.

4.2. Case studies from South Africa

4.2.1. Case study 1

Learning and sense making sense

Mr. Kay is an architect based in South Africa and still currently in business. He claims to have been in 3 different businesses over the past 26 years with 2 business failure experiences. In the most recent business failure he encountered, he felt very bad but said he accepted it. He, however, blamed his partner for the incidence. The main lesson he learned is to be very cautious in choosing partners in business.

Kay had to learn in a hard way that the choice of partners in a partnership business is very crucial to the success of a business. He believed that the business could not succeed because of his poor choice of business partner. He, however, believed that the experience was positive and significant for him in that he believed it was part of learning and he felt good much later after the incidence. Nevertheless, the experience has taught him to take less risk and not to depend on others. Most importantly, the experience has made him to be more confident and more prepared in his subsequent ventures.

Costs of business failure

Financial cost

Like the other interviewees, Mr. Kay claimed that there was a significant financial loss and he had to readjust his lifestyle in order to cope with the situation, as it was impossible for him to continue with his former lifestyle.

Social cost

Mr Kay explained that after the business failure incidence, he had to part ways with his business partner, but they still keep in touch. However, they did not allow their personal relationship to be affected.

Psychological cost

In terms of psychological cost, Mr. Kay admitted that the business failure had some psychological effects on him as he was really affected at the initial stage, though he said he was never embarrassed by it. He, however, overcame the challenge and hence the experience did not affect his willingness to participate in other business ventures.

Access to capital

Mr. Kay explained that capital was a little bit of an issue in his subsequent venture, as the savings from the old business ought to have been used as a start-up capital for the next one. He, however, admitted that he overcame the challenge by borrowing funds.

Discussion

A very interesting lesson in this case study is that, apart from reasons that are documented in the literature as causes of business failure in the literature, the choice of partners was also found to be very important. From this narrative, it is important that before venturing into a partnership business, care must be taken in selecting business partners as this will further complement the preparation and the planning activities that must have been put to place before the takeoff of the business.

Similar to the previous case study, it is believed that some amount of learning has taken place, for example, the participant admitted that the experience was positive and significant for him. However, this only happened much later and not immediately after the failure incidence, suggesting a relative long recovery process as well as some form of reflection over the incidence. This finding is similar to that of Shepherd (2003), Shepherded (2009), and Politis and Gabrielsson (2009). In addition, the participant has learnt not to depend on others and to also take less risk in his subsequent business. It is important to note that taking less risk could lead to a situation where interesting business opportunities could be missed.

Like the other participants, there was also a financial cost. The situation is similar, for example, he had to readjust his lifestyle in order to cope with the situation, as he could no longer live the kind of life he was living before the incident. Regarding the social cost, the incident does not seem to put much strain on the relationship between him and the business partner, even though they have both parted way, they are still able to maintain their personal relationship despite the failure experience. Also in terms of psychological cost, the participant claims that he was affected at the initial stage because he felt embarrassed; however, he did not allow the incidence to affect his ability to start another business venture.

Looking at the impact of business failure on access to capital, Mr. Kay admitted that it did have an impact on his ability to raise capital in his subsequent business at the initial stage but not on his ability to access external fund. He explained that that profit from the business ought to have been used in his other or subsequent business start-ups. However, he was able to overcome the challenge by borrowing money for his subsequent business start-up. This is not surprising considering the fact that the participant is from a region (South Africa) where access to capital is not that much of an issue (Eeden et al., 2004). Again this further confirms that the past history of an entrepreneur does not seem to be a problem in getting a financial assistance for a new business start-up.

4.2.2 Case study 2

Learning and sense making sense

Mr. Stone from South Africa has about 20 years experience in doing business. The business ranges from guest house to estate management business. In his entrepreneurial life, he has had one business failure experience. He claimed his business partner was responsible for the breaking down of the business. He learnt to be careful when selecting a business partner. Stone explained that it was a disappointing experience for him but he had to move on and look for new opportunities. His main lesson was to be less trusting in business relationship. He also explained that he learnt not to be involved in a business that he is not solely in control:

"*I am no longer keen on being involved in a business that I am not solely in control*".

He considers the lessons as both important and significant to him. He admitted that despite the failed business he could count on vital lessons learned on how not to do business.

Costs of business failure

Financial cost

Stone explained that indeed, there was financial loss to him due to the incidence and he was deprived of substantial income. Hence he could no longer afford his former lifestyle. He managed to overcome the challenge by taking loans which he later repaid in small installments.

Social cost

In terms of social cost, Mr Stone explained that indeed the relationship he had with his partner went sour. However, eventhough they went on their different ways, they still managed to still keep in touch but not on a business level.

Psychological cost

Psychologically the participant considered affected by the incidence but did not allow it to deter him from starting other business because he never really felt embarrassed by the incidence rather he picked some lessons from it. For example, he explained "*despite the failed business, I could count on vital lessons learmed on how* *not to do business”*. In addition, he felt more confident to do business after the incidence but explained that he will rather take less risk after the experience.

<u>Access to capital</u>

The participant has since gone into business after the incidence and capital was not an issue neither did his past failure experience had any impact on his ability to access capital.

Discussion

It is evident from our findings that lessons are learnt when there is incidence of failure in business. Specifically, this participant stated that “*venturing into a new business required meticulous planning; lessons learned from previous experience were brought into the new venture to avoid repeating the same mistake made in the past*”. Again, this is just a confirmation of what has already been discussed from the literature.

In terms of what led to the demise of the business, the partipant accused his partner as the cause. Nevertheless, there is a slight difference in the sense that this participant explained that the main reason for the failure of the business is putting too much trust in his partner. In addition, he has learnt not to solely rely on the partner in his future partnership business and also not to be involved in a business which he is not hundred percent in control of.

This participant admitted he suffered some level of financial cost and had to seek for loan as a coping mechanism which he later paid back installmentally. Although he also admitted like other participant that he could no longer maintain his lifestyle after the incidence. In terms of social cost, even though he and his partner are still very in touch but could no longer embark on a business venture together. This is not surpring as there is no longer trust between them. This kind of situation is expected in a business failure. From the narration of Mr Stone, his past business failure does not seem to have any negative consequences on his ability to get loans. He was able to secure loan as a coping strategy and was also able to embark on subsequent business venture which is an indication that his past failure does not influence his presence in getting credit facilities.

5. Conclusion

As explained before, the main focus of this work is to explore the impact of business failure on individidual entrepreneurs. This is divided into 3 dimensions, namely; learning and sense making, cost of business failure, and impact of business failure on individual entrepreneurs on accessing capital. This final section focuses on the comparison and discussion of the findings from all the 4 participants, lessons learnt are brought out, followed by the listing of the limitations of the study as well as the paths for future research.

Findings from all the 4 participants (summarised in Table 1) confirm that failure is indeed a complex phenomenon that can have a serious and detrimental impact on entrepreneur's professional and personal life. In terms of learning and sense making, all the participants documented some level of learning that took place during their experience which they also thought according to our interviewees, if they had known before hand, their businesses could have succeeded. Participant one from Nigeria admitted that, the choice of location, well documented agreement with landlords, and being very meticulous are all very important when setting up a business. The issue of location is not new, as it was found in the literature as one of the factors that could lead to business failure (Leiper and Stear, 2009; Mahamid, 2012; Puig et al., 2013). The only lesson that is new here is having a proper and well documented agreement with the landlords of the business's venue when setting up a business. The second participant, on the other hand, learned that using the right technology and doing business within one's area of competencies are very important when setting up a business. Again, the issue of competencies has been confirmed in the literature (i.e., Leiper and Stear, 2009), however, what we did not find in the literature is the issue of appropriate technology.

Both participants from South Africa are quite similar in terms of lessons they have learnt. The first participant explained that he has learnt that it is important to always choose one's partner very carefully in a partnership business while the other partner admitted that he has learnt to be less trusting in people, especially in a partnership business. These are entreprenurs' related factors but do not seem to have been documented in the literature yet.

Table 1: Synthesis of the case studies

Country	Case	Antecedents/characteristics of the respondents	Business failure	Consequences (access to capital)
Nigeria	Case 1	A restaurant operator, 46 years of age and married with 3 children who has had one business failure experience	**Lessons:** • To always choose the right location. • To always have a concrete agreement with the landlord of the venue of the business. • To be more meticulous in business dealings. **Costs:** **Financial costs;** Experienced a substantial financial cost because all his investment went into it, changed his lifestlye and his children dropped out of school. He later took up an employment. **Social costs;** The business was not a partnership business so, no partnership relationship was affected but the relationship with friends was greatly impacted as he felt desserted by them after the failure. **Psychological cost;** He claimed not to be psycologically affected in anyway as he saw the experience as a training phase of his life.	The business failure did not have impact on the access to capital in his next business venture. However, he considered banks' unwillingness to give loans in Nigeria as a major problem couple with the issue of collateral securities and exhibitant interest rates.
	Case 2	A serial entrepreneur, 66 years of age, married with 3 children who has had one business failure experience	**Lessons:** • To use the right technology. • Not to do business outside his area of competencies. **Costs:** **Financial costs**; suffered a significant amount of financial loss, relocated and took up a paid job. **Social costs;** The business was a partnership business, but the incidence did not affect their friendship, went together into another business. **Psychological cost;** He was affected psychologically, felt embarrassed and almost lost confidence in himself. However, the experience has not dettered him from venturing into another business.	He claimed business failure could have a great impact on access to capital in the Nigerian contex, the reason is that most small scale businesses are self funded without much assistance from the banks due to issue of interest rates and collateral securities. If such businesses fail, entrepreneurs could hardly start all over again. In his own case, he had to take up employment saved money before he could try again.
South Africa	Case 1	An architect by profession, 50 years of age who is also a business man with 26 years experience, married with 3 children, claiming to have had 2 business failures.	**Lessons:** • To be careful in choosing a business partner **Costs**: **Financial cost;** There was a significant financial loss, as he was deprieved of substantial income, he had to readjust his lifestyle. **Social costs;** The business was a partnership business, but the incidence did not affect their friendship, went together into another business but anymore and they still keep intouch. **Psychological cost;** He was initially affected psychologically, however he was able to get over the inicidence after a while.	He believes the incidence had a slight impact on the access to the capital as the profit from the business was supposed to be re-invested but could easily overcome the challenge by borrowing.
	Case 2	A medical doctor with 20 years experience, married with 3 children, who is involved in guests houses and property business, claimed he has had one business failure.	**Lessons:** • To be less trusting in people • To take less risk **Financial costs**; He indeed suffered a significant amount of financial loss, took up a loan to cover his losses. **Social costs;** The business was a partnership business; they went theit separate ways and never did business together again. **Psychological cost;** He was affected psychologically; the incidence affected his participation in other projects, but never felt embarrassed.	The incidence did not have any impact on his ability to access capital

In terms of costs, all the participants incurred some form of costs (financial, social and psychological cost). The financial cost at the very least represented a loss in salary, although some participants were able to absorb these costs more easily than others. For example, Mr Jay from Nigeria explained that all his investments went into it, also he had to change his accommodation and withdrew his children from school as a result of business failure. In the case of the second participant from Nigeria, the impact was not as detrimental, though he claimed to be very embarrassed, but he was able to absorb the cost better than the first participant. Also Mr Kay from South Africa experienced some financial loss, but he was able to cope by readjusting his lifestyle. Similarly, the second participant from South Africa had financial losses, however, he was able to access loans to ease up the impact of the failure. This kind of financial cost is not too different from what is in the literature (cf., Cope, 2011; Ucbasaran, 2013).

Three out of the four participants emphasised the issue of social cost of failure. The findings show that the immediate experience of failure can create a diminishing social environment; for example Mr Jay from Nigeria decribed the incidence as feeling totally battered and dejected because friends and relations deserted him. Likewise, Mr Kay from South Africa explained that he felt his business partner was responsible for the collapse of the business and hence could no longer go into business with him. Mr Stone from South Africa is of the same opinion, that eventhough he stil is intouch with his business partner the relation is definitely not on a business level. The experience of Mr Moore from Nigeria in that regard is a bit different because he still went into business with his partner even after the business failure, thus their relationship was not impaired in any way.

In terms of psychological costs, all the participants admitted they were affected in one way or the other. For example, Mr Moore explained that he was highly embarrassed and almost lost his confidence. However, a more positive finding is that none of the participants was deterred in any way from participating in other projects as they saw the whole experience as a learning ground. These findings are similar to that found by Cope (2011).

Regarding the issue of access to capital, the findings from the two participants from Nigeria are similar but different from the findings from the two particpants from

South Africa. This is not surprising considering the different macroeconomic situation in the two countries.

Mr Jay from Nigeria explained that, regardless the past history of an entrepreneurs, Nigerian banks are not willing to give loans for business creation and when they do, the interest rates are usually very exhorbitant. Hence access to capital is not determined by past business failure. On the other hand, Mr Moore, the second participant from Nigeria, though reffered to the same issues pointed out by Mr Jay but went further by adding that most Nigerian small scale businesses and are self funded due to the problem of accessing capital. Hence, when such business could not succeed, entrepreneurs can hardly start over again.

In the case of South Africa, the finding confirms the result of Cope et al. (2004). Despite their past history of failure, participants were still able to secure loans from the financial instituations. Thus, past failure of entrepreneurs does not have any impact on their ability to raise capital. .

Theoretically, the present study contributes to the literature by adding a few ’new’ factors that lead to business closure: 1) weak agreements with the landlord of the business venue is seen as an important factor - in a situation where agreements on renting a venue of the business is not properly documented, signed and agreed up, it could later backfire as such landlord could later come up with excuses in order to exploit the situation for a selfish gain; 2) in a partnership business, choosing a partner with good character is very crucial to the continuous existence of the business - where a partner in a business lacks character and discipline to be committed to a good practise of business, this could sabotage the efforts of the other partner, hence could lead to the collapse of such business.

In terms of consequence of business failure, and at a first glance surprisingly, past business failure do not impact on entrepreneurs’ access to capital. This is explained by severe restrictions on capital in Nigeria, regardless the entrepreneurs’ past history, and easiness of accessing external capital in South Africa. Thus, past failure experience of an entrepreneur might not necessarily serve as an obstacle to accessing financial resourses. Notwithstanding, in a situation where most small scale businesses are financed by personal savings, it can be a immense challenge to start over again after a business failure, since at the occurrence of such incidence personal savings are eroded and thus the entrepreneurs might have to look for a paid job, work for some time before they can finanlly save enough to start all over again.

Although Cope (2011) recommended that this type of research requires between six to eight participants to allow for indepth analysis, due to the nature of the topic analysed – failure -, it was rather difficult to collect the entrepreneurs' failure experiences – most of the people contacted were very relunctant to participate.

It is often criticised that the methodology of interpretative phenomenological overemphasises the individuals. Nevertheless, since the aim of this research was on what happens to entrepreneurs after a business failure, focusing on individuals appears to be appropriate provided the individuals possess the right qualities as defined in the methodology chapter.

The participants in this study were selected randomly without considering the sectors where they operate. In the future, it would be interesting to choose a particular sector and compare whether the sector matters for the consequences of business failure for the entrepreneurs. Moreover, although three out of four participants claimed that they have gone into new businesses after going through the business failure and that the lessons learned have been valuable to them, it would be useful to assess the extent to which the lessons learned have been beneficial to them in their subsequent (new) ventures.

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Appendix

Questionnaire

U. PORTO

FEP FACULDADE DE ECONOMIA UNIVERSIDADE DO PORTO

Dear Ms/Mr,

I am Comfort Oni, currently Masters student in Finance at the University of Porto, Portugal. At the moment I'm in the dissertation phase.

The aim of my dissertation is to analyse the possible impacts of business discontinuation on individual entrepreneurs in term of costs it imposes on them, learning that could take place in the event of cessation of business, as well as how it impacts the entrepreneurs' ability to access capital in their subsequent business endeavour.

As key targets for my research, I seek to consider 6 individuals/case studies: three from Nigeria and three from South Africa.

In the event that you experienced a business discontinuation during your entrepreneurial life, would you be so kind as to help me in my research by participating in my field work? It would require only some of your time talking to me by skype or email detailing your experience on how your past business discontinuation influenced your subsequent entrepreneurial opportunities and/or professional career. Specifically, the main points to address would be:

- to assess what happened to the entrepreneur after experiencing a business failure, namely whether and what he/she was able to learn from the incident;
- the extent of financial, social and psychological costs the entrepreneur incurred;
- whether the business failure impacted on entrepreneur's credit access for subsequent business endeavours.

Be assured that this questionnaire is highly confidential and will only be used for the purpose of this research only.

The response could be sent either in words or pdf format.

Thanking you for your assistance.

Yours sincerely

Comfort Oni

Contacts: 120417018@fep.up.pt, cell phone: +351920301241

Age: Academic background: Professional experience: Marital status:

Children (no.):

How many businesses have you been involved in so far? Have you experienced a discontinuation of any?

Regarding the business that was discontinued

Learning and Sense making from the experience

- How did the incidence make you feel? How important was it for you?
- How did you react to not being able to continue with the business in the following months?
- Who’s to blame for this?
- What main lessons did you take from the incidence?
- Do you consider them positive/significant?..

Cognitive consequences

- How was the opinion of you affected by the experience?
- Do you feel more confident/prepared after the discontinuation of the business ?
- Do you see your role in the organizations you participate differently since this experience?

Behavioural consequences

- Do you consider yourself a person that takes more or less risks after the failure?
- What business or personal practices changed due to the incidence

Financial Costs

- Were there significant financial or loses for you?
- How did you manage them? Were you deprived from a substantial income?
- Did you manage to keep your lifestyle?

Social Costs

- And what about your partners? (If there is any)
- Do you still keep in touch with them? Have you ever gone into business with them again?
- Was your personal relationships impacted in any way from this experience?

Psychological Costs

- Do you consider yourself affected by the incidence?
- Did the experience affect your willingness to participate in another project or business?
- Did you in any way feel embarrassed by the incidence?

Access to Capital

- Did you venture into another business after the discontinuation of the business?
- Was capital a problem in your subsequent business endeavour?

- Was the previous discontinuation the issue or a contributing factor to the lack of capital in your subsequent business plan? If yes, how?
- How did you manage to overcome the challenge?

Table A 1: Definition of business failure by different authors

Definitions	Studies	Studies' Dimention
Business failure as **bankruptcy**	Hunter and Isachenkova (2001, 2006)	Explanation of business failure
	Dimtras et al (1996)	Prediction of business failure
	Baixauli and Modica-Milo (2010)	
	Li et al. (2011)	
	Garcia-Gallego and Mures-Quintana (2012)	
	Mures-Quintana and Garcia-Gallego	
	Chuang (2013)	
	Li et al. (2013)	
	Zhang et al. (2013)	**Consequences of business failure**
Business failure is defined as **bankruptcy**, financial distress and un-tradable stocks also might fall under what is called a business failure.	Li et al. (2013)	Prediction of business failure
Business failure is described as **bankruptcy**, financial distress and un-tradable stocks	Li et al (2011)	
Business failure, beside legally **bankrupt**, is a situation in which a firm cannot pay lenders, preferred stock shareholders, suppliers, etc., where a bill is overdrawn	Dimitras et al, (1996) Lin et al (2011)	
Business failure leads to the **discontinuity of the firm's operation**, and it has a significant effect on anyone who is related to the firm (creditors, stockholders, suppliers, etc.).	Zopounidis snd Doumpos (1999)	
Business failure could be explained as deficits in a company's shareholders funds where its **financial conditions do not justify continued trading** and/or listing in the stock exchange	Yap et al. (2012)	
Business failure is where **alliance/firm ultimately cannot deliver satisfying results** or it unexpectedly terminates its operation	Chao (2011) Puig et al. (2013)	Explanation of business failure
Business failure could be explained as a situation in which **firms cannot meet their liabilities** and hence cannot conduct economic activities any more.	Honjo (2000)	
Business failure is defined here as a situation where firms reach a stage where they cannot continue, for instance when firms **do not have a successful concept, track record to interest investors** or potential merger partners	Samuels et al. (2008)	**Consequences of business failure**
Business failure can also be described as the **cessation of involvement** in venture because it has **not met a minimum threshold for economic viability** as stipulated by the entrepreneur	Ucbasaran, Westhead, Wright and Flores (2010) Ucbasaran et al. (2013)	
Failure can result when an **individual perform insufficiently with regard to some significant task**, or when things in a certain situation do not fall out as they were planned	Politis and Gabrielsson (2009)	

to be.

Table A2: **Business Failure Prediction**

	Predicted factors	Studies
Financial predicted factors	Profits	Dimitras et al. (1999); Smith and Lou (2007); Appiah and Abor, (2009); GarciaGallego and Mures-Quintana (2012).
	Liquidity position, debt capacity, working capital, productivity, credit	Dimitras et al., (1999); Smith and Lou (2007); Yap et al., (2010); Garcia-Gallego and Mures-Quintana, (2012).
Non-Financial predicted factors	Value chain, decision making, and intangible resources.	Dikmen et al. (2010).

Table A3: Factors contributing to business failure by different authors

	Determinants	Studies
External factors	Macroeconomic factors	Hunter and Isachenkova (2006); Liu (2009); Yang et al. (2010); Barker III (2005); Ropega (2011); Zhang et al (2013)
	Bank finance	Saridakis et al. (2008); Liu (2009)
	Density	Yang et al. (2010), Puig et al (2013)
	Legitimacy	Kale and Arditi (1999)
	Customer dissatisfaction	Ramachandran (2008)
Internal factors – firm related	Age of the Organization	Liu (2009); Lin et al (2008); Puig et al. (2013); Yang et al (2010); Kale and Arditi (1999)
	Size	Lin et al. (2008) Yang et al. (2010)
	Location, Closure and limitation of movements	Puig et al. (2013); Leiper and Stear (2009), Mahamid (2012)
	Structure/Organizatrion of the firms; organisation learning, overcapitalisation	Puig et al. (2013); Kale and Arditi (1999); Leiper amd Stear (2009
	Firm performance – finance: Repetitive structuring, large-scale asset downsizing, high level of debt, failure to cut cost; lack of financial control; low margins of profit, stock market performance.	Lin, Lee, Gibbs (2008); Liu (2009); Yang et al. (2010); Oliver, Holweg, Carver (2008); Mahamid (2012)
	Firm performance – labour related: massive workforce reduction	Lin, Lee, Gibbs (2008)
	Firm performance – innovation/production related: Poor product development process, poor manufacturing performance; Institution innovation trauma; Wide product portfolio, Material costs	Oliver et al (2008); Moldenhauer-Salazer and Valikangas (2009)
Internal factors – entrepreneurs' related	Lack of competences: Malarbsorptive incompetence and maladapted competencies; Lack of attention; Unforeseen and unexpected results; Founder education; Lack of experience; Flaw selection of target markets	Heine and Rindfleis (2013); Chao (2011); Kletz (2010); Saridakis et al. (2008); Leiper and Stear (2009); Mahamid (2012).
	Overconfidence and emotional unfitness; unrealistic assumptions in the business plan; lack of professionalism	Camillo, Connolly, Gon Kim (2008) Leiper and Stear (2009)

Table A4: Consequences of business failure

	Sample/Country	Individuas /Firms	Aims	Results	Methodology	Studies
Learning and Sense making	N/A	51	To examine group- level beliefs about failure and demonstrate relationship between these and group performance	Organizational learning from failure is likely to be hampered by powerful psychological and organizational barriers	Qualitative and quantitative	Cannon and Edmondson (2001)
	N/A	N/A	To explore the emotion of business failure	Fiund a dual process of grief recovery,(Loss orientation and restoration. The one that involves oscillating between the 2 seems to be the most effective.	Conceptual	Shepherd (2003)
	Sweden	31	To examine why some entrepreneurs have developed a more positive attitude towards failures	Both previous start up and experience from business failure are associated with positive attitude towards failure	Quantitative	Politis and Gabrielsson (2009)
	N/A	N/A	To develop a multi- and meso-level theory of grief recovery time from the loss of a family business	Suggests how primarily micro theories of grief and sense-making can help explain grief recovery time at the family group level	Conceptual	Shepherd (2009)
	USA	630	To establish if there are links between entrepreneurs' prior business ownership experience and their opportunity identification behavious	They found that business failure experience can inspire entrepreneurs to identify subsequent opportunities.	Quantitative	Ucbasaran et al. (2009)
	UK	3	To demonstrate entrepreneurial learning from a business failure	Need for planning and information gathering to reduce the risks of entrepreneurial failure , also learning about how to balance work/life relationships	Qualitative	Crick (2010)
	UK	576	To measure an entrepreneur's comparative optimism	An entrepreneur's prior business ownership experience and business failure experience are linked to the possibility of being over-optimistic especially sequential entrepreneurs	Quantitative	Ucbasaran et al. (2010)
	US and UK	8	To assess the impact and outcomes of failure from the entrepreneur's Perspective	He categorised learning in to 4 groups; learning about oneself, the venture and its demise, networks/relationships and venture management.	Qualitative	Cope (2011)
Costs of business failure	Michigan	8	To establish functions of partying ceremony in dying organisations	partying ceremony to be beneficial in terms of relief it provides to the people involved at the death of an organisation.	Qualitative and quantitative	Harris and Sutton (1986)
	USA	4	To explore how Chapter 11 of the Federal Bankruptcy Code spoils the image of top managers and firms	They suggest that Chapter 11 is a discrediting label that causes key organisational audiences to have negative reactions to a firm	Qualitative and quantitative	Sulton and Cahalan (1987)
	N/A	N/A	To explore how and to what end entrepreneurs employ impression management strategies in response to the negative attributions associated with the stigma of venture failure.	They found that entrepreneurs of failed ventures employ impression management strategies to verify their self-views	Conceptuals	Shepherd and Haynie (2011)
	USA	286	To establish if entrepreneurs with high opportunity costs are more likely to take more risk and faces high chance or failure	Opportunity costs of entreprenurship influences both success and failures. Entrepren eurs with high opportunity cost of entrepreneurship are both more likely to fail and more likely to succeed	Quantitative	Arora and Nandkumar (2009)
	USA and UK	8	To assess the impact and outcomes of failure from the entrepreneur's Perspective,specificaly to detail what it feels like to recover and learn from the loss of a venture	They found 5 costs of business failure; financial, emotional, physiological, social, professional and entrepreneurial cost.	Qualitative	Cope (2011)
	N/A	N/A	To examine the cost of business failure and how entrepreur learn from failure and make sense of it	Financial, social and psychological costs, also making from failure sense of failure	Review (Theoretical)	Ucbasaran et al. (2013)

(…)

	Sample/Country	Individuas /Firms	Aims	Results	Methodology	Studies
Access to capital	USA and UK	6	To investigate attitudes of venture capita towards entrepreneurs	They found that the status of the entrepreneurs themselves is not important in the VCs decision of financing	Qualitative	Cope et al. (2004)
	Portugal	8	To identify factors for poor performance and failure faced by small and medium-sized enterprises (SME)	They found that the most important factors are limited access to finance, poor market conditions, inadequate staff, and lack of institutional support, as well as co-operation and networking	Qualitative	Franco and Haase (2009)
	N/A	N/A	Review on access to capital	sets out principles for effective government policy on broadening access	Review	Beck,Demirgu- Kunt and Honohan (2009)
	N/A	N/A	To assess the impact of Credit Guarantee Schemes (CGSs)	They found CGSs deemed necessary to assist SMEs overcome limited finance availability	Review	Samujh, Twiname and Reutemann (2012)
	N/A	N/A	SMEs, financial deepening and economic development	financial deepening can have a pro-growth and pro-poor impact and by alleviating SMEs' financing constraints, it will enable firm entry and entrepreneurship, and better resource allocation	Review	Beck (2013)