1   Introduction

We start with a real-life story. A young lecturer has just returned to his office after teaching one of his favorite classes. In this class, he discussed the high risks associated with entrepreneurial action – that failure was a very real possibility. But importantly, and to quote from the textbook, "Businesses fail, but entrepreneurs do not. Failure is the fire that tempers the entrepreneur's steel and street savvy" (Timmons 1999). The point is that the entrepreneur and the business are separate entities such that when a business fails, the entrepreneur can go on to create a subsequent business. The failure experience informs and motivates entrepreneurial action.

The lecturer's contemplation of the discussions in class was interrupted by a phone call from his father who revealed that the family business was performing poorly. After hearing more details about the financial state of the business, the lecturer advised his father to close the business. The business was subsequently closed, and his father experienced a range of negative emotions. He was angry with others who let him down. He was disappointed that his dreams for the business could not be realized. He believed that he had not only failed as a business person, but because he could no longer hand the business on to his other son, he felt like he was a failure as a father. He became depressed. This caused his family great anxiety.

The next time the lecturer taught the class on entrepreneurial failure, he was highly sceptical of the optimistic story told by textbooks that entrepreneurs automatically and instantaneously learn from failure. This no longer rang true given his experience with his father.

The young lecturer described here was the first author of this book (Dean Shepherd) as a doctoral student almost twenty years ago.

The disconnect between the explanations of failure in the entrepreneurial textbook and his experience with his father's failed entrepreneurial endeavor motivated him to explore the academic literature. Surprisingly, the entrepreneurship and management literature largely ignored the personal implications for those who experience failure. There was little understanding of how and why failure impacts individuals, and as a result, there were few prescriptions for helping individuals cope with this situation. This raised a few fundamental questions that the authorship team has worked on over the last decade, the outcome of which culminates in the current book.

First, although Dean had personal experience with his father's severe negative emotional reaction to business failure, a fundamental question in this context is why a person has such a considerable negative emotional reaction to failure. Do people have similar negative emotional reactions to the failure of entrepreneurial projects within established organizations? Why might some people experience negative emotions from the failure of an entrepreneurial endeavor while others do not (or why do they experience a less negative emotional reaction)? Perhaps it is not just an attribute of individuals but also an attribute of what is lost and the context in which it occurs. In other words, when might an individual experience a more severe (or less severe) negative emotional reaction to a failure experience? In Chapter 2, we address these questions by building on self-determination theory to explain variance in people's negative emotional reactions to failure in terms of how entrepreneurial failure thwarts the satisfaction of individuals' basic psychological needs.

Second, although Dean's father experienced a failure, it did not seem that he was in a state to be able to learn from the experience. How do negative emotional reactions to failure impact individuals' ability to learn from the experience? Given the same negative emotional reaction to failure, why are some individuals able to more quickly reduce their negative emotions and learn from the experience? Do all people who experience failure feel that their self-worth is threatened and therefore activate ego-protective strategies, or are

some people able to detach feelings of self-worth from these failure events? Why are people often compassionate to others who experience failure but overly harsh on themselves? What happens when people are compassionate to themselves after experiencing a failure event? In Chapter 3, we address these questions by building on the notion of self-compassion, which can help reduce threats to self-esteem, reduce the generation of negative emotions, and also keep negative emotions in balance to enhance learning from the experience.

Third, it was only after Dean's discussion with his father that the decision was made to terminate the business. However, had his father realized quite some time before that the business was going to fail, or was he in denial about the inevitable outcome? Indeed, Dean's father continued to invest resources into the firm despite its poor performance, and as a result, when the business eventually failed, the family lost all its financial wealth. When people realize that their endeavor is failing, why do some choose to persist and others choose to terminate? That is, why do some choose to "throw good money after bad" such that when failure eventually occurs, the financial cost is larger than it needed to be? Is such a delay caused by procrastination, sunk costs, or some other form of biased decision making, or is there some benefit in delaying despite the financial costs? That is, are some people able to benefit from a delayed termination? If yes, then why are some people able to benefit from delayed termination while others are not? In Chapter 4, we address these questions by exploring the role of procrastination in delaying termination and making failure more costly than it needs to be. However, we also build on the notion of anticipatory grief to gain a deeper understanding of how some delay in termination can facilitate recovery from failure when it eventually occurs.

Fourth, Dean's father was not in an emotional state to learn from his experiences after the failure event nor was he able to learn during the period immediately preceding the failure event. However, perhaps, if he had quickly started a new business (which was difficult to do given the financial costs of failure), his negative emotional reactions to the

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business failure may not have been so great. Does quickly re-engaging in a new entrepreneurial endeavor reduce the negative emotions from a failure event? If so, is such a reduction in negative emotions associated with increased learning from the failure experience, or are there some circumstances in which higher negative emotions are associated with superior learning outcomes? Does a failure event always cause negative emotions, or are there situations in which a delay in failure (i.e., the termination) generates negative emotional reactions? Does learning from a failure experience only occur after the failure event, or can some people learn from their experiences before the failure event occurs? In Chapter 5, we address these questions by building on the notion of "creeping death" and the rapid redeployment of human resources to explain how delaying termination can lead to both the generation of negative emotions and enhanced learning from the failing experience.

Fifth, although it was Dean's father who directly experienced the business failure, he was embedded in a family and a broader social context. Dean's family tried to help the patriarch emotionally recover from the failure but with only limited success in the short run. How do "others" help reduce an individual's negative emotions generated by failure? Are some people more effective at managing their emotions to more quickly reduce negative emotions and/or more effectively use others' to more quickly reduce negative emotions? Are some others more helpful to the person suffering, and if so, under what circumstances? Can effective help along with reducing the negative emotions generated from failure and/or learning from the experience be organized at the systems level? For example, are some families more capable of helping a member recover from a business failure to learn from the experience, and are some organizations more capable of helping employees recover from project failure to learn from the experience? In Chapter 6, we address these questions by building on the role of emotional intelligence (at the individual level) and emotional capability (at the organizational level) to gain a deeper understanding of the factors that facilitate an individual's recovery

from failure so that the individual and the organization can enhance their learning from the experience.

Sixth, Dean's father felt further anxiety because outsiders harshly blamed him for the failure of the business. As a result, he withdrew from social interactions with those who knew the business had failed and concealed the failure from all others. Indeed, audiences can stigmatize individuals involved with failure. How does stigmatization influence the level of negative emotions an individual feels over an entrepreneurial failure? Why are some who fail stigmatized more than others? Are some audiences less likely to stigmatize individuals for their entrepreneurial failures than other audiences? Are some regions less "entrepreneurial" (i.e., stigmatize failure more) than other regions? In Chapter 7, we address these questions by combining our understanding of the psychological foundations of grief from failure (Chapter 2) with the notion of stigmatization to explore biases in evaluating individuals whose entrepreneurial endeavors fail, impression management to explore actions to enhance the individual's psychological well-being, and perspective taking to understand how audiences differ in harshness of their blame for an entrepreneurial failure.

Seventh, although Dean's father never talked about the business failure (to others and avoided thinking about it himself), by telling more and more plausible stories in his research, Dean has developed a narrative of the failure. What role do narratives play in enabling people involved with a failure to make sense of their experience with it? How much emotional content is used in failure narratives? Given that failure is a frequent occurrence for entrepreneurs and entrepreneurial firms, to what extent do narratives reflect an entrepreneurial orientation? What impact does the narrative content have on subsequent performance? In Chapter 8, we address these questions by building on the sensemaking and entrepreneurial orientation literatures to explore how and why cognitive approaches reflected in narratives are impacted by failure and, in turn, how these impact performance.

Finally, one of the main motivations for undertaking this research journey toward an increased understanding of learning from

failure was to offer practical implications for those who experience entrepreneurial failure. In the final chapter (Chapter 9), we offer a summary of the book with a focus on its practical implications.

Overall, the book builds on and extends our research over the last decade or so on the topic of learning from failure. Our research on this topic began with Shepherd (2003) and continues to this day (i.e., papers published in 2014 and 2015 and in press). The book covers (1) the failures of projects, businesses, family businesses, and even college football matches with (2) rich data from a variety of industries – from knowledge-intensive research and development to drug development to founding teams to college football teams – (3) across a variety of countries, such as the United States, Germany, the United Kingdom, Ireland, and Australia, (4) and across multiple levels of analysis, including the individual entrepreneur, his or her team, his or her business, and his or her regional location. By recombining knowledge from our existing studies with new material and rich examples (including from original qualitative data), we are able to offer a cohesive story of learning from failure that generates many new insights over and above the accumulation of our published research on the topic.

REFERENCE

Timmons, J. A. 1999. *New Venture Creation: Entrepreneurship for the 21st Century*. Boston, MA: Irwin McGraw-Hill.

2 Grief over entrepreneurial failures

Although we started this journey with the failure of a business in Chapter 1, entrepreneurial endeavors also exist as projects within organizations, and these entrepreneurial projects can fail. Project failure occurs when "a project's activities cease due to unsatisfactory or insufficient progress" (Shepherd, Covin, and Kuratko, 2009: 589). For example, "seventy percent of Nokia's new ventures were either discontinued or entirely divested [between 1998 and 2002]. Another 21 percent were absorbed into existing business units and ceased to exist as independent ventures" (McGrath, Keil, and Tukiainen, 2012: 51). Further, 35 to 45 percent of all new products are estimated to be failures (Boulding, Morgan, and Staelin, 1997); half of all information system projects are reported as failures (Keil and Robey, 1999); and in an extensive study of venturing units, there were no instances of success (Campbell, Birkinshaw, Morrison, and van Basten Batenburg, 2003). But are people likely to experience the same level of grief over project failure as they would over business failure? Do all people experience the same level of grief over project failure? Given that the answer to these questions is likely to be no, what explains these differences? In this chapter, we explore differences in both entrepreneurial projects and entrepreneurial business settings to explain the emotional and motivational consequences of failure.

NEGATIVE EMOTIONAL REACTIONS TO PROJECT FAILURES

We turn to the psychology literature for theorizing on possible answers to these questions. Specifically, by building on self-determination theory (Deci and Ryan, 2000; Shepherd and Cardon, 2009), we gain new insights into the generation of grief over project failure.

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Self-determination theory is concerned with explaining an individual's psychological well-being. Individuals have three fundamental psychological needs (i.e., nutrients), and these provide a basis for understanding why some projects are more important than others and why some people find one project more important than another. Given that grief is the negative emotional reaction to something lost, by understanding the importance of a project, we gain some insights into the level of grief generated by its loss through failure. The three fundamental psychological needs are for competence, relatedness, and autonomy. As illustrated in Figure 2.1, the more an entrepreneurial venture satisfies an individual's needs for competence, relatedness, and autonomy, the more it contributes to that individual's psychological well-being, but it also generates more grief when these needs are thwarted by failure.

PROJECT FAILURE THWARTING THE NEED FOR COMPETENCE

The more a project satisfies an individual's need for competence, the more grief he or she will feel when the project fails. The need for competence is satisfied when feedback provides information that the individual is performing well at a particular task (Deci and Ryan, 2000). Some projects satisfy the need for competence by providing the opportunity to learn new skills (Dweck, 1986), demonstrate mastery of the project's tasks (Butler, 1992), successfully compete against
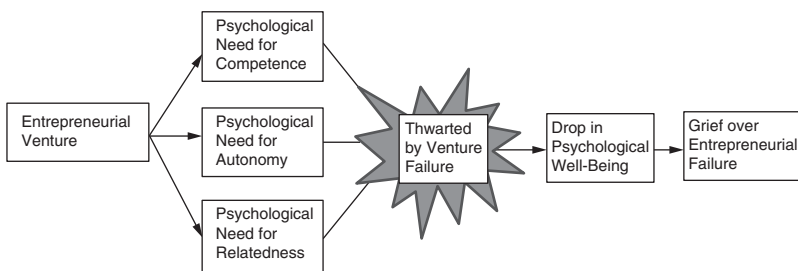

FIGURE 2.1: A self-determination model of grief over entrepreneurial failure

other groups (Tjosvold, Johnson, Johnson, and Sun, 2003), and thus be a member of a competent team (Lindsley, Brass, and Thomas, 1995).

Various managers and employees who we interviewed in our studies and were involved in innovation and new product development projects emphasized that project work can contribute to fulfilling their need for competence. For example, we conducted a study with 257 research scientists working on highly uncertain projects in different academic disciplines (Shepherd and Patzelt, 2011). Before we used a questionnaire to explore the emotional and learning consequences of project failure, we interviewed seven scientists in the areas of chemistry, biochemistry, mechanical engineering, behavioral economics, theoretical physics, aerospace engineering, and biology. These scientists had considerable project experience, including past project failures. The aim of the interviews was to gain a deeper understanding of how scientists and engineers perceive their projects and how they emotionally react to project failure. On various occasions during the interviews, these scientists emphasized the importance of their projects for their self-image as a competent scientist and how failure can threaten this self-image. For instance, an aerospace engineer reported, "The view (of others on us) is they do clean work, it is well documented, it keeps costs and time. . . . So you must deliver. I personally experience it as substantial pressure, which I generated myself but which is important and for me part of defining myself."

Similarly, a biologist reported that being successful at work for her is "very important, without any question . . . without work, well, it defines me. I am happy [when I can prove myself]. This is very important for me."

However, if a project fails and the subsequent project does not satisfy the need for competence to the same degree, the deficit between the two likely contributes to the grief generated by the project's failure. The greater the deficit, the greater the generation of negative emotions. In our interviews with engineers and scientists (Shepherd, Patzelt, and Wolfe, 2011), the leader of the aerospace engineering project continued by describing his reaction to a failure as follows:

> There is one case, which frustrated me personally. We had a
> super-exciting and super-interesting project ... where [we] wanted
> to finish a benchmark example [by] last October, but now we hope
> to be done by this October. We have [a] one-year delay, which
> frustrates me a lot. On the one hand, you can of course argue that
> we do something that does not yet exist and is very new, which
> suggests that time cannot be determined in advance, but on the
> other hand, one must clearly say that for us engineers, it is clearly
> the goal to determine timelines for projects that have not been
> done yet. So this is indeed very frustrating.

Obviously, the fact that this project leader could not deliver the desired
outcome in time thwarted his self-image as a competent engineer.
Similarly, in the same study, the leader of a mechanical engineering
project reported that the project's failure "hurt me as an engineer ...
because, it was simply the case that we failed with a technological
challenge." This engineer's project employed about 200 people and was
highly visible within his organization and beyond.

We found similar results in another study on project termin-
ations in a large German technology company (Shepherd, Patzelt,
Williams, and Warnecke, 2014). In this company, we explored eight
engineering projects from four subsidiaries in the fields of energy and
electricity. These projects differed substantially in scope, their
budgets ranged $750,000 to $140 million, and they had been between
3 and 200 employees working on the projects. All together, we con-
ducted 28 interviews with top managers, project leaders, and project
team members about the failed projects. Specifically, these interviews
covered topics like the project termination process, emotional reac-
tions to these terminations, and learning from the experience. The
interviews provided evidence for how project failure can thwart the
need for competence for those involved. For example, a project team
member described the reaction of the project's chief technology devel-
oper as follows, "He was very frustrated because he thought that what
he had designed aerodynamically was the best. He was going to have