Bournemouth University

Attitudes of Venture Capital Investors Towards Entrepreneurs with Previous Business Failure.

Jason Cope, Frank Cave and Sue Eccles

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Abstract
Business failure represents a significant outcome of entrepreneurial activity and yet remains an underdeveloped area of research. This article focuses on the attitudes of VC investors towards entrepreneurs with a previous failure experience. It illustrates that VCs recognise the complex, contextual nature of failure and do not necessarily perceive the entrepreneur to be the primary cause of the venture's demise. Consequently, the article differentiates between 'business', 'entrepreneurial' and 'venture capitalist' failure. The article demonstrates that VCs often adopt a tolerant, flexible and open-minded attitude to failure and are keen to understand the circumstances in which it occurred. The majority of the VCs in the study emphasise that their decision to invest in an entrepreneur is not negatively affected to any significant degree by a previous experience of failure. A number of influential factors are presented, such as a high quality concept, which can offset this aspect of the entrepreneur's track record. The article concludes that business failure is not automatically considered a 'black mark' by VCs. It is important for entrepreneurs involved in business failure to be aware of these positive and sympathetic attitudes when considering putting forward new proposals to the VC community.

Introduction

'It is impossible to talk intelligently about a theory of entrepreneurship without acknowledging the pivotal role of failure' (Cardon and McGrath, 1999; p2). Within the field of entrepreneurship, there is a tendency for many theorists and practitioners to focus on identifying successful entrepreneurs and 'picking winners' (Deakins, 1996). Conversely, venture failure is often viewed negatively, even though it remains a dominant feature of the entrepreneurial landscape (Cardon and McGrath, 1999). As McGrath (1999) argues, 'although failure in entrepreneurship is pervasive, theory often reflects an equally pervasive antifailure bias' (p13). Consequently, there is a resounding recognition that a clear understanding of entrepreneurial failure remains elusive (McGrath, 1999; Zacharakis et al, 1999). As Scott and Lewis (1984) assert, what is needed is 'clearer thinking about what 'failure' really means and an awareness that more than one perspective is involved: what one sees always depends on where one is standing' (p53).

This article responds to these important issues and represents part of a wider, comparative programme of research currently engaged in exploring the perceptions, impact and learning outcomes of failure from a number of different stakeholder perspectives, both in the UK and the US. This article focuses on the perceptions and impact of failure from the perspective of the venture capitalist (VC) and works on the premise that 'the study of entrepreneurial failure is important and valuable in assisting entrepreneurs and VCs in overcoming the problems that new ventures face' (Zacharakis et al, 1999; p12). Prior research on failure from a VC perspective has tended to focus on the perceived causes of investment failure (Ruhnka et al, 1992). In contrast, this article explores the attitudes of VC investors towards entrepreneurs who have a failure experience in their previous track record. The primary aim of the study reported here was to understand, from a VC perspective, the impact that a failure experience may have on the entrepreneur's ability to receive future VC support. At a firm-specific level, the research also sought to comprehend how significant a failure experience was in terms of the investment evaluation criteria used by VCs. In keeping with the overall research programme the study was also comparative, juxtaposing the attitudes of VC investors in the UK and the US.

Based on qualitative, phenomenological research, this article presents the views and experiences of six VCs with regard to failure, three of whom are US-based and three UKbased. In addressing the call for a more 'micro-level' perspective of new venture failure (Shepherd et al, 2000), the in-depth findings from this research contribute to current theorising on failure in two ways. First, in terms of defining failure the research findings emphasise the importance of distinguishing between the concepts of 'business/venture' failure and 'entrepreneurial' failure. The article also indicates the occurrence of 'venture capitalist' failure, illustrating that VCs can fail both in terms of their investment decisions and the subsequent management of those investments. Second, the article presents a number of significant issues that shape the VC's decision to invest in an entrepreneur, many of which can prove more influential than a failure experience in the entrepreneur's previous track record. The article also presents some observations from the participants regarding general preconceived attitudes towards failure in the UK as opposed to the US.

Definitions of 'failure'

The concept of failure is hard to define, primarily because there are numerous definitions of business failure (Fredland and Morris, 1976; Scott and Lewis, 1984), which involve subjective and idiosyncratic judgements as to what constitutes 'failure' (McGrath, 1999). As Cochran (1981) states, the 'myriad of studies of business mortality, with their various conceptions of failure and different purposes and research designs, speak to the subject with a babble of tongues' (p59). It is important, therefore, to be clear about the definition(s) used when inquiring into this subject (Watson and Everett, 1993). The need for clarity is reinforced by Scott and Lewis (1984), when they assert that the 'root cause of our difficulties, we would argue, is careless use of the word 'failure' and its several synonyms – death, discontinuance, insolvency, bankruptcy. Failure is a composite term, and we need to be aware of its component parts, the balance of which continually changes' (p30).

The definitions of failure proposed by Ulmer and Neilson (1947) and Cochran (1981) provide useful, albeit rather broad descriptions of failure. As Ulmer and Neilson (1947) state, 'firms which were liquidated or sold to avoid loss, in the broad economic sense, may be defined as "failures"'(p11). Cochran (1981) also puts forward a definition that incorporates the importance of loss, which is described by Watson and Everett (1993) as particularly relevant to small business owners, advisors and policy makers. '…limiting failure to bankruptcy, or even to going out of business with losses to creditors, seems to exclude too much. Intuitively, failure should mean inability to "make a go of it", whether losses entail one's own capital, or someone else's, or indeed, any capital' (Cochran, 1981; p52).

In defining *business failure*, Shepherd et al (2000) propose the concept of 'mortality risk', which is defined as 'the probability that a firm will become insolvent and be unable to recover from that insolvency before being bankrupt and ceasing operations' (p396). They emphasise that such an approach to mortality is based on the life of the organisation rather than the life of the management team. Shepherd et al (2000) go on to argue that viewing business mortality as the departure of a venture from the market for reasons of insolvency offers a more narrow definition of mortality than the notion of discontinuance, which may also refer to a change in ownership or closure of the business. As they state, a 'business may change ownership as a result of its success, not as a result of poor performance' (Shepherd et al, 2000; p396).

Ruhnka et al (1992) provide an interesting insight into the phenomenon of failure by introducing the concept of a 'living dead investment', which is specific to the context of VC-backed investing and 'represents a failure of investor expectations as distinct from an economic failure of the venture' (p137). Thus, it is important to differentiate between 'failure', which implies some form of loss or other outcome that does not meet initial expectations, and the broader concept of 'discontinuance', which may not have the same level of impact in emotional, behavioural and economic terms and may not, in some cases, even be viewed as a failure.

'Discontinuance for any reason obviously is too broad a definition of failure. Casting the net that widely ensnares many businesses that cannot be construed to have failed. For example, businesses may be discontinued because of extraneous factors such as retirement or illness, because alternative opportunities presented themselves, or, under some definitions of discontinuance, even because the business is sold at a profit' (Cochran, 1981; p52).

The work by Macmillan et al (1987) on the VC screening process is significant as it introduces different types of failure and demonstrates the prevalence of *entrepreneurial failure*, in the sense that the large majority of failures (81%) identified by the VCs in their sample reflected specific flaws or failings in the venture team. Surprisingly, almost 50% of the failures identified were classified by Macmillan et al (1987) as 'hapless amateurs', where the venture team were lacking in all desirable criteria. 'They are not capable of sustained effort, they are not articulate in discussing the venture, they are not familiar with the targeted market, and finally they have no track record' (Macmillan et al, 1987;p129).

Finally, within the literature on VC assessment processes, there is an implicit recognition of *venture capitalist failure*, in the sense that VCs can fail to make effective investment decisions. For example, Zacharakis and Meyer (1998) assert that 'if a venture under consideration has the same lead entrepreneur as a past successful investment, such available information may bias the VC to overlook other factors that suggest the current venture may fail' (p60). It is also apparent that VCs commonly fail to choose appropriate entrepreneurs and venture teams. As Smart (1999) states, all too often VCs make human capital mistakes and 'pick the wrong people', thereby allocating scarce funding to new ventures that fail. Similarly, Macmillan et al (1987) express their surprise that so many 'hapless amateurs' manage to slip through the VC screening process and actually receive funding.

The importance of 'people' in the VC investment decision process

'Decision making is central to the study of VCs. Understanding how VCs and other parties involved in new venture funding make decisions should further illuminate the entrepreneurial phenomena' (Shepherd and Zacharakis, 1999; p214).

VCs assess the probability of success or failure of a new venture by evaluating the information that surrounds it (Zacharakis and Meyer, 1998). Following the seminal work of Tyebjee and Bruno (1984) on VC investment criteria, there is a consensus that VC decision processes, both in the UK and the US, typically relate to the quality of the entrepreneur/team, product/service attractiveness, market/competitive conditions and financial considerations (Shepherd and Zacharakis, 1999; Smart, 1999; Sweeting, 1991; Zacharakis and Meyer, 1998). However, commentators also emphasise the heterogeneity of VC practices (Sandberg et al, 1988; Tyebjee and Bruno, 1984) and the unscientific, subjective nature of the VC decision-making process (Sweeting, 1991). It is observed that 'gut feel' plays a major role in determining which ventures to back (Macmillan et al, 1987). As Zacharakis and Meyer (1998) highlight, 'VCs often discuss the "chemistry" between themselves and the entrepreneur. The deal often falls through if the chemistry is not right. Such intuitive, or "gut feel" decision-making is difficult to quantify or objectively analyse' (p63).

Despite this inherent subjectivity, numerous theorists emphasise that the quality of the entrepreneur/management team is of paramount importance in the VC's decision to invest (Goslin and Barge, 1986; Roberts, 1991; Sapienza, 1992;

Shepherd et al, 2000). As Smart (1999) points out, VCs realize that they are often 'betting on people' when they make their investments. 'The primary criteria used by venture capitalists in assessing new venture proposals are managerial capabilities and other factors related to competence' (Shepherd et al, 2000; p398). Shepherd et al (2000) go on to point out that the reliance by VCs on venture team capabilities is a response to the uncertainty facing new ventures, and that VCs reduce their risk by investing in entrepreneurs that they trust and believe can cope with this uncertainty. More specifically, Zacharakis and Meyer (1998) state that when VCs are uncertain about the intended market then the entrepreneur becomes a critical factor in their decision.

In identifying entrepreneurial qualities that VCs seek in their investees, the synthesis of the VC decision-making literature provided by Shepherd and Zacharakis (1999) illustrates issues such as general management skill, quality of management, characteristics of the management team and previous track record as significant. Other important factors include prior industry experience (Shepherd et al, 2000), management and marketing experience (Goslin and Barge, 1986), and the importance of a balanced team with a technical and business orientation (Roberts, 1991). Though it would appear that VCs assess the 'management' of a proposed venture, it is important to recognise that 'VCs may fixate on the lead entrepreneur because of that individual's past record of success and because of that person's dynamic personality' (Zacharakis and Meyer, 1998; p60).

The conclusions of Zacharakis and Meyer's (1998) work provide a noteworthy counterpoint to this discussion, illustrating that the 'entrepreneur factor' does not appear to be as critical as theorists suppose. They argue that market characteristics may be a better determinant of which ventures receive funding, stating that 'more information seems to shift the importance from the entrepreneur to the market…if the VC is confident in the market, the entrepreneur is not too important' (p73). Macmillan et al (1987) also illustrate that VCs view criteria that are market related, rather than product or entrepreneur related, to be more important predictors of success. Sweeting (1991) reports similar findings from a UK perspective, confirming that VCs are willing to engage with proposals where there is a recognised management weakness if the business concept is otherwise sound. Certain theorists argue, therefore, that VCs are willing to accommodate gaps in the entrepreneur's characteristics and skills (Goslin and Barge, 1986), as long as the entrepreneur is willing to fill them when needed (Rea, 1989) or the VC is allowed to install their own nominee for CEO or other management role if necessary (Douglas and Shepherd, 2002).

The attitudes of VCs to failure

'Thus, "failure" is at the very least endemic to the venture capital process, an expected, commonplace event; in some cases the process itself may even promote failure' (Gorman and Sahlman, 1989; p238). It is clear that venture failure is a significant outcome of VC investment activity. Several studies have demonstrated that over 40% of VC investments fail to provide satisfactory returns, becoming either 'living dead', 'losers' or 'mega-losers' (Ruhnka et al, 1992; Smart, 1999). Although the exact failure rate for new ventures is disputed, it is generally

accepted that starting a business is a high-risk activity (Shepherd et al, 2000). It is also apparent, however, that the survival rate is substantially lower for VC-backed businesses (Zacharakis and Meyer, 1998; Zacharakis et al, 1999).
In understanding the perceived causes of failure from a VC perspective, it is recognised that new venture failure results from a combination of internal and external factors (Zacharakis et al, 1999). Gorman and Sahlman (1989) identify a number of major reasons why the failure rate is so high. First, certain consequential uncertainties that face proposed new ventures can only be resolved by moving forward. Second, the limited resources that VC-backed businesses possess mean that unexpected snags can be extremely damaging. This is combined with the tendency for VCs to 'dole out financing in discrete amounts closely matched to clear milestones, enabling them to limit damage by refusing additional financing if the company appears unsuccessful in the early stages' (Gorman and Sahlman, 1989; p238). Third, failure may occur if the quality of the management or the product are not up to the demands of the marketplace, or there are delays in product development due to ineffective functional management. The fourth major cause of failure centres on market problems, particularly where the end user market does not develop as expected. Such competitive and external market conditions that create many failures and 'living dead' investments are seen to be largely beyond the control of the VC to remedy (Ruhnka et al, 1992).

The work of Zacharakis et al (1999) adds an interesting dimension to this subject, as their work disputes some common perceptions regarding entrepreneurs' and VCs' attributions of failure. For example, the entrepreneurs in their sample attributed failure primarily to internal causes rather than commonly hypothesised external factors. 'The candor of the entrepreneurs illustrates their willingness to see personal mistakes as contributing to failure' (Zacharakis et al, 1999; p9). A particularly surprising and revealing aspect of their work was the attitudes of VCs to failure at a general level as opposed to a firmspecific level. In terms of new venture failure in general, the VCs in the sample overwhelmingly attributed failure to internal causes. 'The major cause of failure is probably management and its inability to recognise the marketplace and accurately assess market size and accessibility' (VC quoted in Zacharakis et al, 1999; p9). In contrast, at a firm-specific level where the VC understood the venture and was personally involved in its demise, failure was attributed primarily to external causes such as the level of competition and changing market dynamics. It was only when the VC was detached from the venture that internal problems were blamed for the failure, leading Zacharakis et al (1999) to conclude that 'VCs tend to attribute failure to *internal* causes such as management capability as long as they are professionally distanced' (p11-12). Despite Zacharakis et al's (1999) findings, numerous studies illustrate that VCs cite senior management flaws and incompetence as the primary cause of new venture failure (Gorman and Sahlman, 1989; Macmillan et al, 1987; Ruhnka et al, 1992; Shepherd et al, 2000). From this perspective, business failure equates to entrepreneurial failure. Gorman and Sahlman (1989) see this finding as unsurprising, as VCs often interact only with the senior management team, and so in the eyes of the VC the entrepreneur is the company. Any failure of the company is therefore perceived by the VC to be a personal failure of the entrepreneur. Consequently, Macmillan et al (1987) observe that no VC will back an entrepreneur or venture team that has an uninspiring track record, such firms will *naturally* fail to attract funding. Similarly, Rea (1989) illustrates that failures in investment negotiations often revolve around the credibility of the management team. ‘A team perceived by venture capitalists as marginal are a sure formula for failure, even when there are strong market opportunities’ (p157). This conclusion reflects a statement by George Deriot, a prolific character in the US VC industry, that ‘a grade-A man with a grade-B idea is better than a grade-B man with a grade-A idea’ (as cited in Sandberg, 1986). Such findings have major significance in terms of the present study and will be explored subsequently in relation to the research findings.

The research

This article is based on qualitative research with six VCs, which focused on their attitudes and experiences with regard to entrepreneurs who have experienced business failure.1 The study is part of a wider, continuing programme of comparative research between the UK and US (see Cave et al, 2001), which aims to understand the perceptions, impact and learning outcomes of failure from different stakeholder perspectives. The main research issue that shaped the present study was to understand if the experience of business failure had any impact on an entrepreneur’s ability to receive future investment from a VC. At a firm-specific level, the research also sought to comprehend how important a previous failure experience can be in shaping the VC’s decision to invest in an entrepreneur and their proposed venture. The study also aimed to explore whether there were any perceived differences in attitude towards failure between UK VCs and their US counterparts. The research was concerned with exploring the personal attitudes of VCs who have worked with entrepreneurs and businesses that have experienced failure, rather than examining formal protocols and policies towards failure at a VC firm level. To reiterate, it is commonly recognised that much VC investment activity involves intuitive, ‘gut feel’ decision making and the ‘chemistry’ between the VC and the entrepreneur (Zacharakis and Meyer, 1998). Research has also highlighted the importance of the personal relationship and trust that develops between a VC and an entrepreneur (Fried and Hisrich, 1995; Shepherd and Zacharakis, 2001). In exploring the importance of failure in VC investment decisions, such a ‘micro-level’ research focus (Shepherd et al, 2000) was deemed useful as VCs often rely on their personal judgment and experience in deciding which entrepreneurs to invest in. As Sweeting (1991) states, this judgement base is ‘largely built around an individual’s experience of *actually* making deals and living with those decisions’ (p617). Furthermore, work by Roberts (1991) demonstrates significant differences between the practices of individual VCs, described as ‘principal investment officers’, and the espoused policies and preferences of the firms for which they work. Such research findings strengthened the commitment of the authors to engage with individual VCs working at a ‘grass roots’ level, in order to examine which factors may influence them to invest in an entrepreneur who has experienced failure.

In-depth, unstructured ‘phenomenological interviewing’ (Thompson et al, 1989) was the primary methodology used during the fieldwork phase of the research. Thompson et al (1989) provide a detailed description of what they term ‘phenomenological interviews’, which are described as ‘the most powerful means of attaining an in-depth understanding of another person’s experiences’ (p138). The goal of the phenomenological interview is to gain a first-person description of some specified domain of experience, where the course of the dialogue is largely set by the participant. As Thompson et al (1989) state, with the exception of an opening question, the phenomenological interviewer must have no a priori questions regarding the topic. This form of interview, therefore, has strong similarities to the 'depth interview' (Jones, 1985) and the 'informal conversational' interview (Patton, 1990), where 'questions emerge from the immediate context and are asked in the course of things; there is no predetermination of question topic or wordings' (Patton, 1990; p288). Consequently, the only structure imposed on the interviews was an opening question to begin the dialogue – 'Can you tell me about your experience of investing in entrepreneurs with a history of business failure?'

In developing a phenomenological understanding of failure from a VC perspective, the research was 'naturalistic' in its approach (Lincoln and Guba, 1985). As Lincoln and Guba (1985) state, 'when working within the naturalistic paradigm, however, the investigator typically does not work with either a priori theory or variables; these are expected to emerge from the inquiry. Data accumulated from the field thus must be analysed *inductively*' (p203). The objective of this research was to *discover,* inductively, what the perceptions and attitudes of VC investors are with regard to venture failure, and then and only then to compare and distinguish these emergent theories generated from the data with existing literature. Such a qualitative approach was seen as useful because it 'allows research to flow in the less common direction, from data to theory' (Chetty, 1996; p77). Prior to engagement with the participants, no specific theoretical constructs or hypotheses were used or generated, although some broad research issues were developed in relation to the existing literature on VC investment and failure.
In choosing the participants for this study, the qualitative sampling framework proposed by Patton (1990) was utilised, which is described as 'purposeful' sampling. The logic and power of purposeful sampling lies in selecting *information-rich cases* for study in depth. Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the research, thus the term *purposeful* sampling' (p169).

'Snowball or chain sampling' was also used, which 'identifies cases of interest from people who know people who know people who know what cases are information-rich, that is, good examples for study, good interview subjects' (Patton, 1990; p182). Hence, the majority of the sample was chosen from personal networks within the Management School at Lancaster University. As Hartley (1994) states, 'using contacts in industry, academia and friendship can be helpful, first, in establishing what the *population* is of organisations you might draw the case study from, and then how to choose the case(s)' (p216). Whilst the UK participants were geographically spread throughout the UK, the US VCs were all based in Silicon Valley, California. In analysing the interviews, each interview was transcribed and a detailed initial analysis of the transcript performed, with detailed notes written in the margins indicating potentially significant issues. Once a detailed comprehension of each transcript had been achieved, the analysis of the data then moved into another crucial phase, described as cross-case comparison or 'detective work' (Hartley, 1994; Mintzberg, 1983); where the role of the researcher is to 'seek out both what is common and what is particular about the case' (Stake, 1994; p238). In methodological terms, this phase was the beginning of more detailed 'content analysis' (Patton, 1987, 1990).

'Content analysis involves identifying coherent and important examples, themes, and patterns in the data. The analyst looks for quotations or observations that go together, that are examples of the same underlying idea, issue, or concept' (Patton, 1987; p149).

Following this individually based stage of content analysis, the authors then worked together as an 'interpretive group' (Thompson et al, 1989) to develop a set of consistent themes that were apparent across the transcripts. Thompson et al (1989) articulate the benefits of such a dialogic process. 'The perspective of the group is broader than that of any one individual and, thus, a pattern that might not have been noticed by a single researcher may be "seen" by the group…The group, which is comprised of multiple perspectives, maintains a "fresh" vision and is less likely to approach the transcript in a stereotyped fashion' (p141). Once an agreed set of broad topics had been established, the group then compared and contrasted the views of each participant in relation to these overarching themes.

In writing up the emergent issues generated through this interpretive process and to maintain an inductive approach to theory development, nascent theoretical propositions were written up *from the data*, without the use of any relevant academic literature. In the first instance, this allowed the data to 'speak for itself'. The next step in this process involves what Eisenhardt (1989) describes as 'enfolding literature', which enables the development of theory with stronger credibility and deeper conceptual insights. 'An essential part of theory building is comparison of emergent concepts, theory, or hypotheses with the extant literature. This involves asking what is this similar to, what does it contradict, and why' (Eisenhardt, 1989; p544).

The outcome of this qualitative process of theory generation is presented thematically in the following sections of this article, illustrating some emergent issues and insights into the attitudes of VC investors in relation to the phenomenon of business failure.

Defining failure

An important message to emerge from the analysis of the participants' experiences is the need for greater clarity regarding the concept of failure and a recognition of the difficulties associated with classifying an unsuccessful business or entrepreneur as a 'failure' within the context of VC investing. James, a UK VC, is quite clear in his views of business failure, as the following comment demonstrates. 'The core, the narrowest definition, is receivership and administration, given that in receivership and administration the shareholders receive nothing, almost always. So that is clearly a failure'. James also feels that it is still a 'kind of failure' when a business is sold but the investors make a loss. This view of failure corresponds with the concept of 'living dead investments', in which the venture fails to live up to investor expectations but does not necessarily represent a complete economic failure (Ruhnka et al, 1992).

In contrast, Mark (UK) questions whether such businesses can be classified as a failure. In particular, he gives an illustration of a CEO who managed to sell a business 'that was suffering a market change, the rules had changed', and yet the CEO managed to 'turn it around and get an exit'. As he states, 'now is that a failure? Well the investors wrote off 70% of their money'. Certainly, the definition of failure proposed by Cochran (1981) as the 'inability to make a go of it' with losses to investors indicates that it is. Mark's perceptions raise an important issue in terms of defining failure, as the example above highlights a distinction between 'business' failure and 'entrepreneurial' failure. It is apparent from these observations that a *business* that results in a significant loss to investors may well be perceived by VCs as highly unsuccessful or even a failure, and yet Mark's statement indicates that the *entrepreneur/CEO* of such a business may be judged to be relatively successful by achieving the goal of 'getting an exit' in a time of market turbulence. In simple terms, this could be described euphemistically as 'making the best of a bad job'. This research emphasises, therefore, that the terms 'business' failure and 'entrepreneurial' failure should not be conflated, as not all entrepreneurs who have been involved in failed businesses may necessarily be viewed as personally responsible for the failure and therefore perceived as 'failed entrepreneurs' by the VC community.

This relates to Scott and Lewis' (1984) recognition that not all business closures are lamented or regretted or even classified as a failure, 'and may even rank as some kind of success, given the over-riding goals to be accomplished' (p51). Simon (US) adds an interesting insight into the concept of 'entrepreneurial' failure, in the sense that failure is viewed as a result of the personal mistakes and shortcomings of the entrepreneur. He feels that there are two distinct 'types' of entrepreneur-related failure, which he describes as 'acceptable' failures versus 'flamboyant/machismo' failures. He describes 'acceptable' failures as people who are trying to do 'something great' and build a successful company and unfortunately fail in the process. As he states, 'I have no problem with that kind of failure, in fact I would argue that most times you have got a better…leader on your hands'. In contrast, Simon describes 'flamboyant/machismo' failures as people out there 'beating their chests', who 'never understand what it takes and probably never will'; a kind of entrepreneurial failure that clearly relates to the 'hapless amateurs' identified by Macmillan et al (1987). In conjunction with Zacharakis et al's (1999) findings, Simon's attitude regarding 'acceptable' failures indicates that an 'isolated failure does not necessarily represent a repudiation of the entrepreneur's general ability' (Zacharakis et al, 1999; p10). From a VC perspective, Simon's comments reiterate that not all entrepreneurs involved in failed ventures are viewed negatively.

Investing in entrepreneurs with a failure experience

One of the key issues that this research aimed to explore was the perceptions and attitudes of VCs to the phenomenon of venture failure, particularly with regard to investing in entrepreneurs who have experienced failure. A number of issues emerge from a comparative analysis of the data, but what is interesting to observe is the generally positive attitude towards failure displayed by the majority of the participants. On the whole, it appears that the decision to invest in an entrepreneur is not negatively affected to any significant degree by a previous experience of failure and that a number of factors shape the decision to invest, many of which can prove more important than the recognition that the entrepreneur has failed in the past. Such findings concur with the conclusions of Sandberg et al's (1988) work, which illustrates that although VCs frequently state that 'entrepreneur' or 'management team' factors account for most of their decision, 'self reported criteria weights show many criteria involved and none truly dominant' (p13).

The quality of the concept/opportunity

A consistent theme throughout the data is that the quality of the concept or opportunity that the entrepreneur presents to a VC has a strong impact on the decision to invest. As Matthew (UK) states, 'Our experience tells us that backing people with failures in their background is not a disaster, it is not something that we should shy away from. If the business is sound, technology is sound in our view, we would pick someone who has been round the loop before, given that they had a sensible...reason for the failure'. The willingness to invest in an entrepreneur with a track record involving failure is also expressed by Rebecca (US), if the individual concerned possesses great technical abilities and a great product. As she states, 'with entrepreneurs I think people are more inclined to bet on people who don't have proof one way or another about whether they can be winners…I think that they are more concerned about the quality of the idea than they are the quality of the management of the entrepreneur'. Similarly, Paul (UK) states that he wouldn't hold a failure against somebody and that investing in an entrepreneur who has experienced failure as opposed to a new starter 'depends entirely on the concept'.

Such statements contradict the common perception in the VC literature that the entrepreneur is the most important factor in the VC's decision-making process, particularly Rea's (1989) argument that entrepreneurs or management teams perceived as potentially marginal are viewed as a sure formula for failure despite strong market opportunities. Rather, this research reinforces previous findings that if the VC is confident that the concept will meet a market demand, the entrepreneur is not too important (Zacharakis and Meyer, 1998), and that VCs are not necessarily overconcerned with the total composition of the management team at the screening stage (Sweeting, 1991). As Sweeting (1991) states, one VC fund felt that 'a good business based on sound product/market concepts, with good proprietary technology, could attract relevant good management in whatever areas they were needed' (p612), a view shared by many of the participants in this research. This raises an important distinction made by several of the participants in terms of backing a 'founder' CEO as opposed to a 'experienced manager' CEO.

The participants do give examples of entrepreneurs who have occupied the role of CEO, but they emphasise that more often than not CEOs are experienced professional managers 'brought in' by VC investors to manage the business. Rebecca (US) makes the important point that investors are willing to take a leap of faith with an entrepreneur more so than they are with professional management, a point reinforced by Mark (US). He states that his company has backed many entrepreneurs with a failure experience, whom he describes as 'creators', because he feels that they are the easiest category of people to back in the start-up environment. One important reason for this is that founding entrepreneurs, as opposed to professional CEOs, 'know how to do something intangible which no-one else can do'. Mark also points out another significant factor that often stands in the entrepreneur's favour, which is the common acceptance amongst VCs that the founder only takes the business to a certain stage.

'So when I as an investor come to review your track record I am really only reviewing how did you come up with the idea…where is your skill set based, and then I am looking at…how I can supplement your strengths and weaknesses with other people's strengths'.

The ability of the entrepreneur to 'step back'

Another important and related issue that influences the VC's decision to invest in an entrepreneur who has experienced failure is the entrepreneur's ability to 'step back' from the management of their business once it has reached a certain stage. Several participants stress that an entrepreneur who receives VC investment and creates a new venture is often not perceived to be the person who will lead the company to a public offering or some other form of exit. As Rebecca (US) states, 'the person I call the entrepreneur is the person that typically generates the idea and then jumps off the cliff…they may or may not have the capability to then build, manage and grow the organisation'. Matthew (UK) illustrates that founder entrepreneurs often have what he describes as a "life expectancy", which can be as little as eighteen months. 'If you look at being a CEO in one of our start-ups, being a founder CEO has a life expectancy…and that's specifically about being the Managing Director. Ninety, eightyfive percent of the time they will be Chief Technical Officer, they will move sideways, but…the person who is running the company when we meet them is not the person who is running the company after eighteen months'.

A significant finding from the research is how difficult it can be for VCs to convince entrepreneurs that the relinquishing of responsibility and control is crucial, both in terms of continued VC support and the growth and success of the business. Matthew (UK) describes this as the 'trauma' his company normally has to go through when investing, reflecting Timmons and Bygrave's (1986) recognition that many VCs are 'simply overburdened with cleaning up problems in their own portfolios and in replacing management' (p162). As Matthew points out, 'with founders, particularly in tech businesses, [where] it is their baby, their idea, their vision for the world, who are doing it for the first time, it is really hard to have that kind of conversation', a point echoed by Paul (UK). Paul describes several instances where he could bang entrepreneurs' heads against walls 'in the nicest possible way', stating that 'I get very personally frustrated with somebody who doesn't recognise that all you are trying to do is help them'.

Although it is recognised that VCs often replace the entrepreneur or the management team (Sweeting, 1991), and that it is one of the most dramatic things they do (Gormanand Sahlman, 1989), this research demonstrates that this can prove to be a difficult, traumatic and extremely frustrating process for the VC to engage in.

In highlighting potential distinctions between the UK and the US in terms of VC investment Mark (US) describes a key difference between the two countries, which is the concept of 'churning management'. Importantly, this concept may be significant in explaining why UK VCs may encounter entrepreneurs who are unable to 'let go of their baby' more frequently.

'I mean one of the issues here in the US versus being in the UK, or Silicon Valley versus the UK, is the concept of churning management. Here it is so much more prevalent, so it is very rare that we would actually have a conversation here in Silicon Valley where the founders say, "oh, I am going to take this company public". It is very rare, it is much more normal for him to say "I will take this to this

stage and then I will recruit somebody to take it to the next stage and then we will recruit somebody to take it public". There is much more of an attitude of I will do my bit and get rewarded for it and then I will go off and do something else'.
Matthew and Paul, both UK VCs, give poignant examples of businesses that have failed,a major factor for the failure being that the founding entrepreneur was unwilling to step aside and allow an experienced professional manager to lead the business forward. Such findings illustrate the notion that entrepreneurs can reach an 'executive limit' (Meyer and Dean, 1990) at which point 'their inability to manage becomes detrimental. In such cases, ventures that do not replace the entrepreneur with a professional manager are more apt to fail' (Zacharakis et al, 1999; p2-3). For example, Paul describes an entrepreneur who was 'very good at [the] scientific side of his concept…but a totally uncommercial animal'.
Consequently, he was unwilling to accept the advice of his VC investor, and was not prepared to either accept further investment to fund the development of the concept or allow a professional CEO to manage the business. As a result, the business has ran out of capital and yet the entrepreneur concerned 'is probably six months and half a million pounds away from a multimillion pound idea'. Not surprisingly, this is enormously frustrating for Paul and he credits it to the perception by some entrepreneurs that VC investors are 'vulture capitalists, not venture capitalists, and the reason for that is because this man comes along with some money and says I want a piece of your business'. Despite these problems, Paul would still be willing to invest in the entrepreneur and his business a second time, 'if he would stand aside'.

Rebecca's (US) experiences illustrate that VCs in Silicon Valley can suffer similar problems and she recounts a very similar example of a venture failure that involved a 'well qualified technologist' with insufficient commercial skills. On reflection, she now realises that 'I should have either changed the management at that point in time, so it had a chance to succeed in some other guise, or I should have insisted that the capital be returned, so that's the only regret I have'. As is the case with Paul, Rebecca would still be prepared to invest in this entrepreneur again as she perceives him to be a 'high quality individual', as long as he would agree in advance that he would provide technological leadership but would not be the CEO of the business.

These examples illustrate the occurrence of 'venture capitalist' failure, both in terms of accurately assessing the entrepreneurs that they choose to invest in (Smart, 1999), and in not acting swiftly enough to replace the entrepreneur or management team when necessary (Sweeting, 1991). Importantly, these examples demonstrate that VCs are not averse to working with entrepreneurs who have experienced business failure, even if the person concerned is perceived to be a major contributor to the failure. To receive future investment, however, it is extremely important that such entrepreneurs are aware of their own strengths and limitations and are willing to supplement their skills where necessary with an experienced CEO/management team in order to exploit the opportunity more effectively and avoid failure for a second time. Similarly, Roberts (1991) gives an illustration of a VC fund that accepted entrepreneurs that 'appeared to be more open-minded, more aware of their personal limitations' (p15). Relevant studies indicate that it is also significant to VCs that the founder entrepreneur is able to build and present a balanced team with both a technical and business orientation

(Roberts, 1991) and attract qualified people with proven skills (Goslin and Barge, 1986). The current article concludes that this may be particularly critical for entrepreneurs who have previously experienced failure. As Matthew (UK) explains, one such entrepreneur he worked with received another round of VC investment, not only because he continued to have a good market opportunity but also because 'he had surrounded himself with people that looked more sensible to the outside world'.

The importance of previous start-up experience

An interesting issue to emerge from the data is that previous start-up experience, either good or bad, is an important aspect of VC investment. As Shepherd et al (2000) state, 'an entrepreneur's experience with previous start up ventures and new ventures should not be neglected as a source of advantage' (p399). Matthew (UK) feels quite strongly about this issue, to the point that he states 'personally I would prefer to back a failed entrepreneur, subject to seeing what the failure was…than a new starter'. Rebecca (US) feels that, in many respects, failure is a positive experience, stating that 'failures are not necessarily bad because they teach you things'. Although businesses begin with the basic expectation that they will survive (Shepherd et al, 2000) and failure is not a desirable outcome of entrepreneurial activity (Whyley, 1998; Sitkin, 1992), Rebecca's comment indicates that VCs recognise the valuable learning that may accrue from venture failure (Cave et al, 2001; Cardon and McGrath, 1999). As Shepherd et al (2000) state, 'new venture managers may learn from past choices about how to perform better in the future' (p395).

Rebecca goes on to state that 'when I hire CEOs, I look for people who have had both very good experiences and very difficult experiences, and if they can't talk to me rationally about what was causal in each of them then I'm suspicious'. Matthew's company receives so many CV's that 'we don't need to see anyone who hasn't got a start-up in their CV'. What is apparent from these comments is that VCs are often interested in entrepreneurs who have a range of experiences, rather than merely investing in people who have a history of success. This research demonstrates that VCs may not necessarily fixate on the entrepreneur's past successes, as Zacharakis and Meyer (1998) postulate. Matthew (UK) confirms that he would meet with entrepreneurs who have had previous start-up experience, 'no matter which way it has gone', and goes on to emphasise that 'we are agnostic about whether we have dealt with them in a successful situation or a failure situation, as long as they have performed sensibly through that process'.
In investment terms, Rebecca (US) points out that failure combined with success is most favourable, as long as the entrepreneur has not continually experienced failure as then serious questions must be asked. 'So looking at somebody as a picture you want to see that they know what it means to be a winner, and you want to see that they have been formed out of a winning background and so you look...where did you come from, what were your formative experiences, what kind of environment were you in and was it a culture and a market condition that generated win. And then, if that's the case, somewhere along the line you did something that didn't work out, okay, well what did you learn from that…This environment is more willing to tolerate failure mixed with success. I don't think it's willing to tolerate repeated failure'.

Matthew (UK) confirms this perception, stating that 'a history of success…even if it is just the most recent section of it, will forgive many sins. So venture capitalists can have very short-term memories when it comes to past failures'. Once again, these attitudes demonstrate that entrepreneurs with experience of failure are not necessarily restricted in terms of securing future investment from VCs.

The nature of the failure

Finally, another quite obvious yet significant issue to emerge that influences VC investment in entrepreneurs with a previous failure is the nature of the failure itself and the perceived level of personal culpability of the entrepreneur concerned. Simon (US) makes the important point that a 'smart' VC will try and ascertain what the 'driver' of the failure was, and to understand 'whether someone's failing is because they were doing something great and it just didn't happen, but the approach…all made sense, or was it just someone trying to make a fast buck'. Similarly, Paul (UK) asserts that it is essential for VCs to have an open-minded and inquiring attitude when approached by entrepreneurs who have experienced failure. In particular, the following comment by Paul demonstrates that, at a firm-specific level, VCs are not necessarily inclined to attribute failure to management weaknesses (Zacharakis et al, 1999). 'I think it is the ability of the finance provider, or the creditors, because they get hurt in failure as well, to recognise that the entrepreneur has gone down, not through mismanagement, but more often than not for lack of cash or some other reason. If he has been cavalier with his business, then quite frankly you have to look twice at him…before you go into that situation again. If he's failed because maybe the concept wasn't right, or maybe it didn't work, I think in those circumstances particularly [you] have got to say, well okay, we still like the idea, it didn't work, and he needs another year or two to do something with bells and whistles on it'.

Simon (US) confirms the need for VCs to adopt a positive, 'healthy' attitude to failure. 'So if you don't talk about it and you don't have a healthy attitude towards it, there is always this kind of underlying dynamic going on but you are just avoiding the real key issues…I think that is one of the things that people forget from the outset, is that it is how you deal with failure that makes you a much better venture capitalist'. Mark (US) feels that rapid technological developments have contributed towards a more positive attitude towards failure, because there are so few founders that have 'entrepreneurial flair and could create something' that VCs are willing to forgive a failure experience if such individuals are still producing good ideas. Mark emphasises that attitudes to failure are much more flexible in times of 'entrepreneurial scarcity' and VCs are more willing to mitigate the risk of investing in an entrepreneur with a failure experience in their background. 'When they [entrepreneurs] are [in] short…supply, the demand for that expertise goes up and so people are much more, I wouldn't say lenient, they are much more keen to understand where and…how the failure occurred'.

What comes across quite strongly in the examples that the participants give of entrepreneurs who have experienced failure is the recognition that both luck and timing have a lot to do with the success and failure of new ventures. Matthew (UK) is quite open about this issue and gives an example of a business that failed because 'the timing was wrong. It's not the idea, therefore it was just the wrong time'. He recognises that luck has a lot to with being a successful entrepreneur. 'It is the same view as the US guys, there is a big chunk of luck in this and…with the best will in the world, the best manager in the world won't always turn around a scenario in a start-up where there is no market'. Such a comment indicates that VCs recognise that the end user market failing to develop is a significant factor in venture failure (Gorman and Sahlman, 1989; Ruhnka et al, 1992). In such failure situations when the market just 'doesn't turn up' Matthew states that it is not really a reflection on the entrepreneur involved in the failed start-up. Rebecca (US) reinforces this point. 'There's no stigma at all about having been part of a failed company because so many failed, when you get that cataclysmic market correction, where everybody was going down this path when suddenly the world says we don't like it down this path anymore…it's hard to say that everybody in those companies were lousy people'.

Put simply, several of the participants recognise the complexity of venture failure, emphasising that the blame does not always lie in mismanagement or specific failings of the entrepreneur. As Mark (US) states, 'as a founder you create, and there are many reasons why things fail and there are many reasons, outside of your creating, why they fail'. Such observations emphasise the distinction between 'business' failure and 'entrepreneurial' failure.
These attitudes to failure reflect the findings of Gorman and Sahlman (1989), where only a small minority of the VCs in their sample attributed venture failure solely to the entrepreneur or senior management team. As Macmillan et al (1987) state, it is 'obvious that ventures still fail no matter how hard the entrepreneurs work, or how meticulous they are, or what their past track record is like' (p131). Although unfavourable market conditions can be beyond the control of VCs to remedy (Ruhnka, et al, 1992), the participants in this study recognise that such external factors can also be beyond the control of entrepreneurs. Furthermore, despite being 'experts' (Zacharakis and Meyer, 1998), Matthew (UK) illustrates that VCs can contribute to venture failure and 'get it wrong' by failing to judge the market correctly. 'I have got a company at the moment that are teetering on the verge of not making it. [I] still believe in the technology, still believe in the market ultimately, but we invested too early in the cycle and got it wrong'.

A related issue that VCs feel is important is the ability of entrepreneurs to be honest about their failure and admit if they entered the market at the wrong time, as Matthew (UK) points out. 'If it was a failure of the business…there was some reason why the business idea was flawed and they admitted that they just got it wrong, got in at the wrong time, it wasn't an error of execution specifically, then I would rather go through the transaction with someone like that'. James (UK) has a similar attitude, particularly with regard to entrepreneurs who have a business that is currently in trouble. He is impressed when an entrepreneur is able to be frank about the state of their business, rather than simply encouraging the VC to invest more money. It is apparent that the majority of the participants understand very clearly that entrepreneurs are not always responsible for the failure of a business and are quite willing to reinvest in entrepreneurs with a previous failure as long as they can give a sensible explanation as to why the failure occurred. 'So as long as you fundamentally don't think he is an idiot from the actions he took, then the guy remains backable' (Mark, US). Importantly, Paul (UK) feels that it is a 'brave financier' in the UK who will take such an understanding and lenient view of failure, which raises an interesting question regarding perceived differences in attitudes between US and UK investors, an issue that will be discussed in more depth shortly.

The inevitability of failure

'The field upon which venture capitalists play is littered with the remains of failed companies' (Gorman and Sahlman, 1989; p237) A consistent theme that runs throughout the data is the level of understanding and appreciation displayed by the participants in this study regarding how difficult it can be to create a successful start-up. As this article has illustrated, the majority of the participants demonstrate a flexible and generally positive attitude to entrepreneurs who have experienced venture failure, recognising this to be an inevitable outcome of entrepreneurial activity. Paul (UK) emphasises that start-ups are 'notoriously bad for failing', and he estimates that probably four out of every seven start-ups fail. Simon (US) states that 'in the early stage game I would argue that if you are not expecting forty to fifty percent failure rate you are not realistic'. As Shepherd et al (2000) reflect, new organisations operate 'while continually subject to the risk that an unanticipated event or combination of events will force them out of business' (p396). Consequently, Paul perceives start-ups to be a high-risk investment and only approximately 15% of his portfolio consists of early stage investments. Interestingly, it seems that Matthew's (UK) primary aim is to ensure that businesses don't fail initially, and he works on the assumption that merely ensuring his investments are in existence after two years means that they have a chance of success.

Many of the VCs in this study recognise both the prevalence and significance of failure and the inextricable link between success and failure. The sheer numbers of ventures that fail within the context of VC investing, as reflected in the comments of the participants and numerous other studies (Ruhnka et al 1992; Smart, 1999), emphasise the importance and value of studying the phenomenon of failure (Cardon and McGrath, 1999; McGrath, 1999; Zacharakis et al, 1999). Simon (US) feels that even though no one talks about it, failure is a 'fact of life', and he makes the interesting observation that 'Silicon Valley in particular, or at least what I have seen of it, failure is probably the single largest ingredient to long-term success'. This view is also put forward by Matthew (UK), when he states that, 'all start-ups do not work by definition, so if you throw out all the management teams then you don't end up with many people left'. Rebecca (US) expresses a similar attitude, recognising that many people have been involved in multiple start-ups and that failure is an inevitable outcome of being involved in the start-up environment. '…it's just very common that not all business ideas are created equal…If you're part of the start-up community and you're involved in it you are likely to have some failures'.

Even James (UK), the one participant in the study who takes a more negative attitude towards entrepreneurs involved in a business failure, accepts that not all failures can be avoided and that some are clearly down to bad luck. 'There are situations where there is no…possibility of avoiding action, and…something hit you…a bolt of lightening out of the clear blue sky'. James provides a significant counterpoint to these sympathetic attitudes to failure. He is explicit that, in many cases, venture failures are down to an element of bad planning and a lack of foresight on the part of the entrepreneur and/or management team. As he asserts, ‘when I look into situations of failure and try to understand what actually went on and what avoiding action might have been taken, I find that the quality of the management team is often…deficient’. Consequently, James stresses that he works on a ‘presumption of guilt’, stating that ‘the presumption is that he [the entrepreneur] is a failure and it is a black mark. Can we prove why it isn’t in fact the case?’ Of significance, James is the *only* VC in this study to identify entrepreneurial failure as the primary cause of venture failure, and to adhere to the common perception that ‘senior management is the critical ingredient that makes or breaks venture-backed businesses’ (Gorman and Sahlman, 1989; p240). James goes on to make a powerful and important point that failure is not meaningless and completely acceptable. ‘People do not want their investments to fail. Chief executives do not want their companies to fail. You cannot tell them not to worry about risk, because personal pride apart from anything else…you want your investment to succeed…and telling them that it [failure] doesn’t matter is completely meaningless and unhelpful, of course it matters’.

Preconceived, generalised attitudes to failure: UK versus US

The majority of the VCs in this study demonstrate distinct similarities in terms of their *personal* attitudes towards entrepreneurs who have experienced failure, treating venture failure with a degree of tolerance, acceptance and open-mindedness. From a VC perspective, such commonalities dispute the common perception that the US is far more tolerant in its attitudes to failure than is the case in the UK. More specifically, there is a preconception that, in the US, failure is viewed as a generally positive experience with significant learning outcomes, whilst in the UK entrepreneurs with a failure experience face negative attitudes and stigmatisation (Cave et al, 2001). What is so surprising, given their personal views and experiences, is that the UK VCs in this study tend to adhere to these stereotypical cultural differences in attitude towards failure. This became apparent when the UK participants articulated their perceptions of the UK context for entrepreneurial activity.

Paul (UK) feels that US VCs are more tolerant and ‘pragmatic’ about failure and actually expect entrepreneurs to have two or three failures before they succeed. ‘By talking to people I’ve worked with in the States, they almost expect entrepreneurs to have a few bumps before they make it. Whereas in this country I think that they view failure as a very difficult thing to carry around on your back’. Similarly, James states that ‘I would have to say that I would rate US venture capitalists above UK venture capitalists’, as they are more ‘understanding of the processes of the investee’. The other UK VC, Matthew, reinforces the idea that this may well be part of wider cultural differences in attitudes towards failure between the UK and the US. ‘If you say I have had a failed business, you are perceived as being a failed business person here forever [in the UK], you don’t get the chance to say it was a really great idea, and the market went against us…Whereas in the US I think it is different. I think that the idea of starting up on your own, fighting the system, fighting the state, fighting the world – having your own business, doing it your way and winning is great – it is the American dream. Doing it all and losing it all – well at least you went for it’.

James states that people in the UK involved in a failure are likely to suffer a blemish on their CV, which he attributes to the 'intolerant British culture towards failure'. Matthew feels that this more negative attitude in the UK is the result of a 'lack of comprehension in the public at large' regarding what entrepreneurial activity is all about and what a commitment it really is. As he states, 'you wonder why entrepreneurs aren't exactly rushing around in the UK to risk things. When they get successful…people hate them, and they have a failure and people hate them'. Matthew feels that the US is more sympathetic and supportive of entrepreneurs and entrepreneurial activity in general, and this is reflected in a more tolerant attitude towards failure.

What is so surprising, given the attitudes of the other five participants, is that James actively avoids investing in entrepreneurs who have been involved in a failure, stating that 'there is a reluctance to back people who have failed before'. It is potentially significant that he is a UK VC, as indicated by the following statement. 'I mean there is a cliché…that UK venture capitalists don't back people with failure and the US does that more and is more forgiving. I would probably conform to that cliché… I fear I am a creature of my culture in a sense in that…my experience has been that in many situations of business failure…failure of the CEO has been an important contributory factor and therefore…I feel I am quite harsh in my attitude to failure…So I would be very interested to understand more about why it is that US investors are much more forgiving of failure'.

Conclusion

Business failure represents a significant outcome of VC investment activity and yet prior research on the subject from a VC perspective has tended to focus on the perceived causes of failure. In contrast, this article has developed a deeper understanding of the attitudes of VCs towards entrepreneurs who have a failure experience in their previous track record. In contributing to the VC decision-making literature, this article demonstrates that, contrary to many previous studies, the entrepreneur is 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 research emphasises that the quality of the concept or opportunity is paramount; a primary reason being that any perceived weaknesses in the entrepreneur can, and often will, be supplemented by the VC's introduction of an experienced CEO and/or senior management team. This article demonstrates that if entrepreneurs are able to provide a sensible and coherent reason for the failure, recognise their own limitations and be willing to 'stand aside' if necessary, then the ability to receive future VC support is not jeopardised to any significant extent.

An important conclusion from this research is that VCs do not always perceive entrepreneurs to be the primary cause of venture failure, which stands in contrast to several previous studies on the subject. The participants clearly recognise the inevitability of business failure and illustrate that it is often the result of external factors that are outside the control of both the entrepreneur and the VC. This recognition that failure is a complex, contextual event means that the majority of the VCs in this study adopt a tolerant, flexible and open-minded attitude to entrepreneurs who have experienced failure and are keen to understand the circumstances in which the failure occurred. Several participants stressed that such a healthy attitude to failure is an important aspect of being a venture capitalist. The article confirms that the VC's decision to invest in an entrepreneur is not negatively affected to any significant degree by a previous experience of failure. Other influential factors, such as a high quality concept, can offset this aspect of their track record. The participants are quick to stress, however, that if an entrepreneur has experienced multiple failures and very little success then this seriously brings into question the entrepreneur's abilities and the viability of their proposal. It is vital, given the findings of this research, not to conflate the terms 'business' failure and 'entrepreneurial' failure. Entrepreneurial failure can imply that the failure of the venture is a result of the entrepreneur's personal shortcomings or mistakes, thereby equating venture failure with a 'failed' entrepreneur. As this article has illustrated, 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.

The research also demonstrates the occurrence of 'venture capitalist' failure, both in terms of failing to choose the right people/ventures to invest in and in not acting swiftly enough to replace the entrepreneur or management team when necessary. Within the context of VC investment, this article therefore makes a contribution to existing definitions of failure, such as those proposed by Cochran (1981) and Ulmer and Neilson (1947), which do not take into account these finer nuances within the concept of failure. Finally, it must be emphasised that further research should be dedicated to the subject of failure, to explore further these different definitions or types of failure and to dispel some of the common myths and misconceptions surrounding this phenomenon, particularly with regard to the perceived stigma associated with business failure. This article provides some useful and encouraging signs to entrepreneurs who have experienced failure and are concerned about the possibility of receiving future support for their ideas. For the majority of the VCs represented here, venture failure is not automatically considered a 'black mark' and it is important for entrepreneurs to be aware of these sympathetic and supportive attitudes when considering putting forward new proposals to the VC community.

Notes

1 A brief profile of the participants can be found in Appendix 1. Their names have been changed for confidentiality purposes.

Appendix 1: Participant profile

Matthew

Matthew is a Partner in a UK-based VC firm, which manages one of Europe's principal venture capital funds and specialises in early stage technology opportunities. Funds managed aggregate £150m and investments range up to £5m. In the twenty years since it was founded the firm has invested in 60 early stage and start-up technology businesses in the UK. It has a very active, hands-on philosophy to investment. Matthew's academic background is in engineering and he has personal experience as CEO of a technology subsidiary of a large group and of leading a VC-backed technology start-up.

Paul

Paul is an Investment Manager with a UK regional VC firm that has been investing for twenty years. Investments are considered in all sectors but the firm has specific capacity and expertise to invest in technology at both early and start-up stages. Investments are in the range £5,000 to £2m, with the potential for follow-on. Before joining the firm Paul had high-level responsibility in corporate banking with a leading clearing bank.

James

James is Managing Director of a £6m seedcorn investment fund focused on providing early-stage equity funding to help create new university spin-out companies. The fund supports projects at the earliest stages of the move from research into commercial operation and works very closely with investee companies to prepare them for further rounds of VC investment from other providers. Before joining the fund on its foundation, James had fifteen years investment experience with one of the UK's leading technology investors where he reached the position of Investment Director.

Rebecca

Rebecca is a General Partner with a Silicon Valley based early-stage venture capital firm that has backed approximately 100 companies over the last twenty years. With over $500m under management the firm invests in information and medical technology companies. The focus is on early-stage and select later stage enterprises in business to business markets, based in the geographic area. All investment staff have held executive positions in start-ups and have track records of building successful ventures. Rebecca has been with the firm for eight years and focuses on companies in the enterprise applications software and electronic commerce markets. Before joining the firm Rebecca had over ten year's experience in software product marketing with high growth companies. In addition to start-up experience she has senior marketing experience with large corporations.

Mark

Mark has been in VC for over eight years with his current firm and has prior experience in Europe and the UK in capital restructuring. Though many of his colleagues have a hands-on technology background, his academic background is in banking and finance. The firm is a long established venture investor with multinational operations and connections. It invests heavily in early stage technology in the range $3m to $25m. It has a significant presence in Silicon Valley as well as Eastern USA.

Simon

Simon is Founder and Managing Partner of a Silicon Valley based firm that also operates in Europe. The firm has over $600m under management and in seven years of operation has a portfolio of 53 firms. The focus is on software systems, components and services. Investments range from $1m to $15m. Approximately one-third is early stage, one-third development and one-third late stage. Simon has twenty years experience working with technology companies in venture capital, consulting and engineering roles. He has an academic background in both business and computer science.

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