An Empirical Study into the Impact of Entrepreneurial Failures on Subsequent Entrepreneurial Intention

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Abstract—As entrepreneurial activities are becoming more and more popular in China these years, considering the relative low success rate of entrepreneurship, it is of great importance that we study the influence of entrepreneurial failure on entrepreneurs’ future entrepreneurial intentions and decisions. This article provides an empirical view of the relationship between entrepreneurial failures and subsequent entrepreneurial intention by studying into 159 Chinese entrepreneurs who have entrepreneurial failure experience before, and comes to a solid conclusion of the impacting relationship, hoping to provide researches a new perspective for future studies.

Keywords: entrepreneurial failures; emotional intelligence; subsequent entrepreneurial intention; entrepreneurial self-efficacy

I. INTRODUCTION

With the development of economy and technology, the topic of entrepreneurship is becoming more and more popular, while the study into entrepreneurial failures is still new and immature. Most studies of entrepreneurial failures nowadays are still focusing on the definition and causes of the failures. In terms of the relationship between entrepreneurial failures and subsequent entrepreneurial intention, there are a few former studies, but most of them are still using qualitative method and there are very few empirical studies about this topic.

In most cases, entrepreneurial failures would bring entrepreneurs great pain and trauma (Cope, 2011), and have negative effects on their confidence, self-efficacy and even tendency to risks (Shepherd, 2003). But we cannot deny that entrepreneurial failures could also be positive in that they can provide entrepreneurs with a great learning opportunity, helping them to rethink their entrepreneurial activities all along, enhance their entrepreneurial abilities and ensuring them a better performance the next time (McGrath, 1999). And some researches argue that failures are more motivating than successes, because failures can show the distance between dream and reality and push people to take more appropriate actions to achieve their goals (Staw & Barsade, 1993).

Based on the above conflicts, this article first summarizes the study results on entrepreneurial failures both in China and abroad, then proposed a model on how the failures influence future entrepreneurial intention by studying into entrepreneurs who have failure experiences. After analyzing the first-hand data, it provides an empirical view on whether entrepreneurial failure experiences positively or negatively affect future entrepreneurial intention, and in which way do they influence future entrepreneurial intention.

II. LITERATURE REVIEW

A. The Definition of Entrepreneurial Failure

Currently, there are three main categories in the definition of entrepreneurial failure.

The first group is from the financial perspective. They think that once the company is liquidated or sold, then the entrepreneurs are regarded as having failed. Representing researches include Ulmer and Neilson (1947). Cochran (1981) expands the definition that as long as the company cannot exist any more, regardless whether entrepreneurs have lost money, the entrepreneurial activity is regarded as failure.

The second group defines entrepreneurial failure in the perspective of entrepreneurs’ intention. It goes beyond the relatively narrow concept of the first group, such as bankruptcy and liquidation, and defines entrepreneurial failure as terminating companies that fail to accomplish short-term goals (McGrath, 1999; Politis & Gabrielsson, 2009).

The definition of the third group is relatively wide. They think that as long as the result of the entrepreneurial activities haven’t met what entrepreneurs have anticipated, the entrepreneurship is considered to be a failure (Cannon & Edmondson, 2001; Politis & Gabrielsson, 2009).

B. The Concept of Entrepreneurial Self-Efficacy

Albert Bandura (1977), a famous American psychologist, first raised the concept of self-efficacy during his research of social learning theory. Self-efficacy represents the level of confidence in accomplishing certain achievement based on one’s personal skills. Entrepreneurial self-efficacy is gradually developed after self-efficacy was introduced into entrepreneurship research field. Boyd et al. (1994) defined it as “the intensity of individual belief in successfully acting as every entrepreneurial role and completing all entrepreneurial tasks”. They regard it as one of the prerequisites of

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entrepreneurial behaviors. So we can define entrepreneurial self-efficacy as the entrepreneur’s faith and confidence in entrepreneurial activities according to self-assessment.

C. The Relationship Between Entrepreneurial Failures and Subsequent Entrepreneurial Intention

Most of the studies on entrepreneurial failure experiences and subsequent entrepreneurial activities, especially entrepreneurial intentions, are qualitative studies. Very few empirical studies into this relationship exist.

From the mainstream researches, the relationship falls into two categories: positive impact and negative impact. Ucbasaran (2010) thinks that entrepreneurs who have failure experiences would learn more from the former entrepreneurial activities and would try harder in later entrepreneurship. Hayward (2010) studies into confident entrepreneurs, who tend to continue entrepreneurial activities even if they have failed. On the opposite, many researches claim that entrepreneurial failures would negatively affect entrepreneurs’ intention to continue entrepreneurship. Cope (2011) claims that feeling of failure would quite possibly beat entrepreneurs’ confidence and prevent them from starting a company again. In the meantime, if the financial loss of the failed company is high, the intention of subsequent entrepreneurship would be severely impaired.

III. Model Building and Hypothesis

A. Model Building

As has been discussed in the literature review, researches hold very different opinions on whether entrepreneurial failure experience would have negative or positive influence on entrepreneurs’ subsequent entrepreneurship. This study thinks that the difference occur because the former researches regard the failure experience as a whole rather than divide the experience into several dimensions to fully understand the influence. According to the literature review of different dimensions of entrepreneurial failure, this study divides entrepreneurial failure into three dimensions: severity of failure, anticipation of failure, and number of times of failure, to build a formative model for entrepreneurial failure.

Self-efficacy is the degree of confidence and faith one holds to accomplish certain entrepreneurial goals. While former researchers claim that failure experience affect subsequent entrepreneurial intention through affecting entrepreneurs’ confidence (Hayward et al, 2010), opinions have differed on the influence of entrepreneurial failures on entrepreneurs’ self-efficacy. Some researches argue that entrepreneurs with no failures before would have less retrospection of themselves and don’t think they would possibly fail, which increases the chance of making errors, thus failure experience would push entrepreneurs to rethink themselves, learn from failures and enhance their self-efficacy. Others think the pain brought by failures would greatly beat entrepreneurs’ confidence and reduce their self-efficacy. While it’s generally acknowledged that high self-efficacy would enhance subsequent entrepreneurial intentions.

Moreover, researches have shown that emotional intelligence can also affect subsequent entrepreneurial intentions, in that entrepreneurs with high emotional intelligence can better control their sad negative feelings, motivate and encourage themselves, and more inclined to start entrepreneurship all over again.

Based on the relationship between entrepreneurial failure experience, emotional intelligence, entrepreneurs’ self-efficacy and subsequent entrepreneurial intentions, this study proposes the following model on the influence of entrepreneurial failure on subsequent entrepreneurial intentions.

![Model of the influence of entrepreneurial failure on subsequent entrepreneurial intention](chart1)

Chart 1. Model of the influence of entrepreneurial failure on subsequent entrepreneurial intention

B. Hypothesis

1) The influence of entrepreneurial failure on subsequent entrepreneurial intention

We divide entrepreneurial failure into three different dimensions: severity of failure, anticipation of failure, and number of times of failure.

Hypothesis 1a: The severity of failure is negatively correlated to subsequent entrepreneurial intention.

Hypothesis 1b: The anticipation of failure is positively correlated to subsequent entrepreneurial intention.

Hypothesis 1c: Number of times of failure has a reversed U-shape relationship with subsequent entrepreneurial intention. With the increase of times of failure, subsequent entrepreneurial intention first increases and then decreases.

2) The mediating effect of entrepreneurial self-efficacy on the influence of entrepreneurial failure on subsequent entrepreneurial intention

Hypothesis 2a: Entrepreneurial self-efficacy has a mediating effect between the severity of failure and subsequent entrepreneurial intention.

Hypothesis 2b: Entrepreneurial self-efficacy has a mediating effect between anticipation of failure and subsequent entrepreneurial intention.
Hypothesis 2c: Entrepreneurial self-efficacy has a mediating effect between number of times of failure and subsequent entrepreneurial intention.

3) The moderating effect of emotional intelligence on the influence of entrepreneurial failure on subsequent entrepreneurial intention

Hypothesis 3: Emotional Intelligence has a moderating effect between entrepreneurial failure and self-efficacy. The higher emotional intelligence, the more significant entrepreneurial failure influences entrepreneurial self-efficacy.

Hypothesis 3a: Emotional Intelligence has a moderating effect between severity of failure and self-efficacy.

Hypothesis 3b: Emotional Intelligence has a moderating effect between anticipation of failure and self-efficacy.

IV. RESEARCH DESIGN AND DATA COLLECTION

The questionnaire method is one of the main research methods in this study. The questionnaire used for this study has integrated many mature measuring standards and then the questionnaire is improved based on Chinese entrepreneurial environment.

Three main parts are included in the questionnaire: basic information including gender, age, education, etc.; information about entrepreneurship including entrepreneurial experience, industry and size of the company, whether they have entrepreneurial failure experience and the reasons and times for the failures; intellectual emotions, self-efficacy and subsequent entrepreneurial intention. WLEIS scale (Wong & Law, 2004) is used to measure intellectual emotions; 7-point Likert scale is used to measure subsequent entrepreneurial intention and self-efficacy.

230 pieces of questionnaires are handed out to entrepreneurs and 196 pieces got back, in which we have 159 pieces of effective questionnaire results. All interviewees are entrepreneurs or former entrepreneurs in Zhejiang Province. And data from entrepreneurs who don’t have entrepreneurial experience before are considered to be ineffective questionnaire results. Most interviewees are men, taking up 63.52%, and most are between 26 to 35 years old.

V. EMPIRICAL RESULTS

A. Correlation Analysis

Pearson Correlation Coefficients are used in this correlation analysis. Detailed correlation data is shown in the following table.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<th>7</th>
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<th>10</th>
<th>11</th>
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<tbody>
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<td>1.Severity of Failure</td>
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<td>2.Anticipation of Failure</td>
<td>-.025</td>
<td>1</td>
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<tr>
<td>3.Times of Failure</td>
<td>.218</td>
<td>-.064</td>
<td>1</td>
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<tr>
<td>4.Subsequent Intention</td>
<td>-.289</td>
<td>.175</td>
<td>-.031</td>
<td>1</td>
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<tr>
<td>5.Innovation</td>
<td>-.117</td>
<td>.099</td>
<td>-.126</td>
<td>.428“</td>
<td>1</td>
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<tr>
<td>6.Risk Taking</td>
<td>.034</td>
<td>.240</td>
<td>-.132</td>
<td>.168</td>
<td>.017</td>
<td>1</td>
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<td>7.Opportunity Identification</td>
<td>-.232“</td>
<td>.036</td>
<td>.017</td>
<td>.349“</td>
<td>.593“</td>
<td>.089</td>
<td>1</td>
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<tr>
<td>8.Relationship Management</td>
<td>-.073</td>
<td>.022</td>
<td>-.021</td>
<td>.317“</td>
<td>.660“</td>
<td>-.049</td>
<td>.509“</td>
<td>1</td>
<td></td>
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<tr>
<td>10.Emotional Intelligence</td>
<td>-.058</td>
<td>.077</td>
<td>-.150</td>
<td>.418</td>
<td>.734</td>
<td>.038</td>
<td>.487“</td>
<td>.600“</td>
<td>.581</td>
<td>1</td>
<td></td>
<td></td>
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<tr>
<td>11.Age</td>
<td>.022</td>
<td>-.068</td>
<td>-.058</td>
<td>-.065</td>
<td>-.064</td>
<td>-.132</td>
<td>.181“</td>
<td>-.008</td>
<td>-.019</td>
<td>.133</td>
<td>1</td>
<td></td>
<td></td>
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<tr>
<td>12.Education</td>
<td>.093</td>
<td>.040</td>
<td>.101</td>
<td>.016</td>
<td>.342“</td>
<td>-.084</td>
<td>.162“</td>
<td>.160</td>
<td>.248</td>
<td>.290</td>
<td>-.320</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>13.Gender</td>
<td>.041</td>
<td>.079</td>
<td>-.130</td>
<td>-.149</td>
<td>.000</td>
<td>.095</td>
<td>-.061</td>
<td>.097</td>
<td>-.030</td>
<td>.012</td>
<td>-.159</td>
<td>-.021</td>
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</tbody>
</table>

*p<0.05; **p<0.01

From the chart we can clearly see the correlation between two variables. Important results include:

- Severity and anticipation of failure are significant correlated with subsequent entrepreneurial intention, while times of failure don’t prove to be quite correlated with subsequent entrepreneurial intention. The more severe the failure is, the less likely the entrepreneur is having subsequent entrepreneurship again. And the more anticipated about the failure, the more likely the entrepreneur will continue entrepreneurship.
- The severity of failure is significant negatively correlated with the five dimensions of self-efficacy. Anticipation of failure is significant positively correlated with self-efficacy and number of times of failure does not show to be correlated with self-efficacy.
- The five dimensions of self-efficacy are positively correlated with subsequent entrepreneurial intention, proving that higher self-efficacy will drive higher subsequent entrepreneurial intention.
- Emotional intelligence is not significantly correlated with entrepreneurial failure, including severity, anticipation and times, while it is significantly correlated with four dimensions of self-efficacy and subsequent entrepreneurial intention.
- Being control variables in this analysis, gender, age and education don’t prove to be much correlated with other variables, except that education is highly positively correlated with self-efficacy.
B. Results Analysis of Regression Analysis and Hypothesis Testing

1) The relationship between entrepreneurial failure and subsequent entrepreneurial intention
From Table II, we can see clearly that severity and anticipation of entrepreneurial failure both have significant impact on subsequent entrepreneurial intention, but in different ways and to different degrees.

TABLE II. REGRESSION ANALYSIS TABLE FOR THE INFLUENCE OF SEVERITY AND ANTICIPATION OF FAILURE ON SUBSEQUENT ENTREPRENEURIAL INTENTION

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1 β</th>
<th>Model 1 Sig.</th>
<th>Model 2 β</th>
<th>Model 2 Sig.</th>
<th>Model 3 β</th>
<th>Model 3 Sig.</th>
<th>Model 4 β</th>
<th>Model 4 Sig.</th>
<th>Model 5 β</th>
<th>Model 5 Sig.</th>
<th>Model 6 β</th>
<th>Model 6 Sig.</th>
<th>Model 7 β</th>
<th>Model 7 Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>-.165*</td>
<td>.042</td>
<td>-.163*</td>
<td>.035</td>
<td>-.170*</td>
<td>.015</td>
<td>-.170*</td>
<td>.027</td>
<td>-.161*</td>
<td>.028</td>
<td>-.200**</td>
<td>.007</td>
<td>-.160*</td>
<td>.027</td>
</tr>
<tr>
<td>Age</td>
<td>-.098</td>
<td>.251</td>
<td>-.070</td>
<td>.385</td>
<td>-.100</td>
<td>.175</td>
<td>-.046</td>
<td>.573</td>
<td>-.162*</td>
<td>.043</td>
<td>-.095</td>
<td>.217</td>
<td>-.098</td>
<td>.196</td>
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<tr>
<td>Education</td>
<td>-.019</td>
<td>.821</td>
<td>.009</td>
<td>.914</td>
<td>-.155*</td>
<td>.047</td>
<td>.032</td>
<td>.690</td>
<td>-.082</td>
<td>.299</td>
<td>-.054</td>
<td>.481</td>
<td>-.093</td>
<td>.236</td>
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<tr>
<td>Failure Severity</td>
<td>-.277**</td>
<td>.000</td>
<td>-.210**</td>
<td>.003</td>
<td>-.285**</td>
<td>.000</td>
<td>-.285**</td>
<td>.000</td>
<td>-.190*</td>
<td>.012</td>
<td>-.245**</td>
<td>.001</td>
<td>-.208**</td>
<td>.005</td>
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<td>Failure Anticipation</td>
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<td>.021</td>
<td>.140*</td>
<td>.043</td>
<td>.140</td>
<td>.071</td>
<td>.163*</td>
<td>.024</td>
<td>.174*</td>
<td>.016</td>
<td>.157*</td>
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<td>Risk taking</td>
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<td>Opportunity Recognition</td>
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<tr>
<td>Organization Commitment</td>
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<td><strong>R²</strong></td>
<td>.031</td>
<td>.140</td>
<td>.301</td>
<td>.162</td>
<td>.233</td>
<td>.238</td>
<td>.249</td>
<td>.350**</td>
<td>.322**</td>
<td>.000</td>
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<td></td>
<td></td>
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<tr>
<td>∆R²</td>
<td>.109</td>
<td>.161</td>
<td>.109</td>
<td>.022</td>
<td>.093</td>
<td>.099</td>
<td>.109</td>
<td>.350**</td>
<td>.350**</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>F</td>
<td>1.635</td>
<td>4.971**</td>
<td>10.918**</td>
<td>4.898**</td>
<td>7.674**</td>
<td>7.934**</td>
<td>8.400**</td>
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</tbody>
</table>

*p<0.05; **p<0.01

2) The mediating effect of entrepreneurial self-efficacy
From Table II, we can see that self-efficacy acts as partial mediation in the relationship between severity of failure and subsequent entrepreneurial intention, and the relationship between anticipation of failure and subsequent entrepreneurial intention. This means that severity and anticipation of failure can not only directly affect subsequent entrepreneurial intention, but also affect subsequent entrepreneurial intention through affecting self-efficacy.

Anticipation of failure affect subsequent entrepreneurial intention through risk taking self-efficacy (complete mediation), innovation self-efficacy (partial mediation), opportunity recognition (partial mediation), relationship management self-efficacy (partial mediation), and organization commitment self-efficacy (partial mediation).

Severity of failure affects subsequent entrepreneurial intention through innovation self-efficacy (partial mediation), opportunity recognition (partial mediation), and organization commitment self-efficacy (partial mediation).

From the above analysis, we can see the five dimensions of entrepreneurial self-efficacy have both complete mediation effect and partial mediation effect between severity and anticipation of failure and subsequent entrepreneurial intention.

3) Moderating effect of emotional intelligence
Varian analysis is used in measuring the moderating effect of emotional intelligence.

TABLE III. REGRESSION ANALYSIS TABLE FOR THE NUMBER OF TIMES OF FAILURE ON SUBSEQUENT ENTREPRENEURIAL INTENTION

<table>
<thead>
<tr>
<th>Variable</th>
<th>β</th>
<th>R²</th>
<th>adj. R²</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Times</td>
<td>-.191</td>
<td>.003</td>
<td>-.010</td>
<td>.238</td>
<td>.788</td>
</tr>
<tr>
<td>Number of Times²</td>
<td>.167</td>
<td></td>
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</tr>
</tbody>
</table>

TABLE IV. THE MODERATING EFFECT OF EMOTIONAL INTELLIGENCE ON SEVERITY OF FAILURE AND SUBSEQUENT ENTREPRENEURIAL INTENTION (N=159)

<table>
<thead>
<tr>
<th>Factor</th>
<th>F</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emotional Intelligence</td>
<td>.870</td>
<td>.421</td>
</tr>
</tbody>
</table>

TABLE V. THE MODERATING EFFECT OF EMOTIONAL INTELLIGENCE ON SEVERITY OF FAILURE AND SUBSEQUENT ENTREPRENEURIAL INTENTION (N=159)

<table>
<thead>
<tr>
<th>Factor</th>
<th>F</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emotional Intelligence</td>
<td>11.875</td>
<td>.000</td>
</tr>
</tbody>
</table>

*p<0.05, **p<0.01

Emotional intelligence does not have a moderating effect on the relationship between severity of failure and subsequent entrepreneurial intention.
Emotional intelligence has a moderating effect on the relationship between anticipation of failure and subsequent entrepreneurial intention. The higher emotional intelligence is, the more significant the relationship will be.

VI. SUMMARY

A. Practical Insights

- As the study shows that the more severe the failure is, the less likely the entrepreneur is willing to start a business again. In cases of signs of failure, including significant profit losing and increasing cost, entrepreneurs should rethink whether this is still a good business to go, and quit before the loss goes beyond one can handle, reducing the severity of the failure in time.
- Entrepreneurs should be more observant of the market and the company itself, and should not be too optimistic of the results of the entrepreneurship. Little anticipation of failure would greatly increase the harm to the entrepreneur after a failure, which decrease their subsequent entrepreneurial intention.
- Friends and family should pay more attention to entrepreneurs who have failure experiences before, encourage and help them to alleviate the pain. As is shown in the study, self-efficacy greatly affects one’s entrepreneurial intention, thus building up self-efficacy after failure is very important.
- Emotions should be properly controlled if there is a failure. Entrepreneurs should be more optimistic about the failure itself, learn from the failure and get themselves better prepared for future entrepreneurship, rather than get over pessimistic and unconfident about themselves.

B. Limits to the study

1) Authenticity of interviewees’ answers to the questionnaire

Since the interviewees in this study are entrepreneurs who have failure experience before, considering some entrepreneurs are not willing to admit or talk about their failures, there might be some bias in the questionnaire results.

2) Dimensions of entrepreneurial failure may not be overall inclusive

Entrepreneurial failure is a relatively broad concept. This study tries to divide entrepreneurial failure into several dimensions, while this division may not be the best division and might have ignored some other dimensions.

3) Time to the failure might influence interviewees’ answers

Time duration matters a lot to entrepreneurial failure and subsequent entrepreneurial intention. Normally, the longer the failure has past, the more positive attitude towards the failure and entrepreneurs themselves, and the higher their subsequent entrepreneurial intention. While due to the limitation of measurement, time span is not considered in this study.

C. Future research prospects

1) Establish a follow-up study to have a more accurate data.

Since most financial results are not open to the public, it is hard to do financial analysis along the way. Besides, entrepreneurs might not want to talk about their failure experience. Future study can have a longer time span on entrepreneurial failure, which can generate results from different time period of the failure, which would be more objective.

2) Study of the influence of entrepreneurial experience on entrepreneurial intention

Subsequent entrepreneurial intention is based on the fact that entrepreneurs have entrepreneurial experience before. Whether entrepreneurial intention would be affected by entrepreneurial experience is a topic needing studying.

3) Study of the measurement of entrepreneurial failure

As the study in entrepreneurial failure arouses more and more attention from researchers, a more accurate division of entrepreneurial failure into different dimensions could be studied to better serve the needs for entrepreneurial study in the future.

ACKNOWLEDGMENT

The authors thank all of the anonymous interviewees in the study for their time. The authors acknowledge that the design of the questionnaire and the paper has benefited from valuable suggestions and comments of several interviewees.

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