
Explaining Entrepreneurial Failure: Individuals Externalities - Internalities and Opportunism as the Major Factors

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Abstract – Purpose: *This study reflects on the reasons for failure of entrepreneurs by investigating the externalities, internalities and opportunism of individuals*

Method: *The study was undertaken with 1541 nascent entrepreneurs. Relational analysis is used to investigate the relationship & influence of the determinants of entrepreneurial failure.*

Results: *Individuals internalities & externalities, which consist of: [a] voluntaristic factor, [b] emotive factor, [c] deterministic factor, and [d] opportunism influence entrepreneurial failure experienced by nascent entrepreneurs.*

Conclusion: *The study implies that entrepreneurs should follow entrepreneurial processes where they could learn from mistakes by strengthening entrepreneurial personality and to focus on psychological aspects*

Background

The most important entrepreneurial learning experience that can be absorbed by entrepreneurs supposes to be resourced from their experience in venture failures.

The situation and the failure condition should ideally trigger entrepreneurs to become tougher, more resilient, and the most important thing, are able to learn from failures. The existence of failure as an event in entrepreneurs' entrepreneurial journey –

which is followed by the mental process, the learning process and the experiential process has raised a particular concept in entrepreneurship, which is known as the concept of serial entrepreneurship. It is believed that the number of venture failure before achieving entrepreneurial success is situationally, conditionally and contextually related. This means that the most entrepreneurs will experience entrepreneurial failure – and the number of

failure is different among them. However, one common argument raised and approved by the scholars reveals that the entrepreneurial success is very seldom to be achieved only in one single venture creation/establishment. Based on that overview, this study investigates and further, examines and discusses the presence of individuals internalities and externalities, as well as individuals opportunistic behavior as the major reasons in entrepreneurial failure.

Literature Review

The study merely uses literatures regarding entrepreneurial failure as introduced by Smida and Khelil (2010), Mellahi and Wilkinson, (2004), Khelil (2012 ad 2016), Hammer and Khelil (2014) and opportunistic behavior raised within an individual (Cordes, et al., 2010) and Williamson (1993 and 1999) as the major theoretical foundation to undertake the analysis. As Smida and Khelil (2010), entrepreneurial failure is a psycho-economic phenomenon which will lead

entrepreneurs to undertake error actions to allocate resources. Therefore, entrepreneurial failure can be concluded as the situation in which the psycho-economic phenomenon relates to:

- [a] individual situation and condition (in particular behaviour and personality),
- [b] organisation as a business entity), where an entrepreneur undertakes entrepreneurial process
- [c] social environment which is directly and/or indirectly relates to individuals
- [d] entrepreneurial process happened to individuals.

However, such four factors individually cannot influence entrepreneurial failure as it does not have sufficient power that lead to a failure. There should be a combination and an interaction between factors and elements which will impact failure to the business run by entrepreneurs. In a more broaden scale, Wennberg et al., (2010) and Hammer (2014) further identified the existence of three conditions that can lead to a failure in business, which is: [a]

business environment, [b] the business itself – mainly inappropriate resources and competence, and [c] the entrepreneur as an individual/personal – mainly less commitment from entrepreneurs in managing the business.

If we objectively observed, business failure, in particular new ventures failure is closely related to the analysis on those who is operating the business. This means that the entrepreneur as a person is considered as an individual who is having prominent roles to determine whether a business can be success, or, in reverse, fail. Therefore, the unit analysis of the research cannot always be focused on to the business as an entity. It is why we put emphasis of our focus and analysis merely to the entrepreneur as an individual. Concept and studies regarding opportunism mostly related to the opportunistic behaviour of individuals and it mentioned that this opportunistic behaviour is a hidden will of an individual which can bring negative impact to the business and it is shown by

efforts to achieve that hidden will (Cordes, et al., 2010). Andrunik and Svetlakov (2013) and Cordes et al., (2010) have further revealed that the existence of opportunistic behaviour is closely related to the transaction cost concept and will create conflicts and bargain situations in which individuals need to choose one most appropriate choice from many alternative decisions. Those both concepts are clearly related to the topic of this paper and study – and they demonstrate an indication that an entrepreneur will prefer a situation which brings more benefits to him/herself personally.

Methodology

This study was undertaken with 1541 nascent entrepreneurs in West Sumatra – Indonesia as the unit of analysis and context of study. Relational analysis is used to investigate the relationship and the influence of the determinants that can influence entrepreneurial failure. Cross-sectional data and information were collected by using questionnaire as the

research instrument. We further designed some possible determinants to identify specific reasons of entrepreneurial failure in the continuum of externalities and internalities of individuals, which is [a] deterministic factor, [b] voluntaristic factor, [c] emotive factor and [d] opportunism of nascent entrepreneurs. We follow Khelil (2016), Smida and Khelil (2010) and Mellahi and Wilkinson, (2004) as the guidance to predict the reason/determinant of the failure. Opportunism is measured based on the possibility of an entrepreneur to choose to secure a job and the possibility of an entrepreneur to follow his/her desire to immediately establish other new ventures but with the condition that his/her earlier business is still in an unstable or immature situation. Both these possibilities are then connected to the possibility of failure in the earlier business that an entrepreneur has. For this purpose, findings and results of the study were analysed by using regression analysis and supported by the use of SPSS 23.0 as the statistical tool.

Findings and Discussion

Our study proved that individuals internalities and externalities which consists of: [a] voluntaristic factor, [b] emotive factor and, [c] deterministic factor are influencing entrepreneurial failure experienced by the West Sumatran nascent entrepreneurs. If we look at the descriptive results gathered from our sample, the most deterministic factor that causes failure is the inability of our respondents to meet the most efficient operational cost in their business. In emotive factors, most of our respondents revealed that the pressure to fill-up their personal and family needs have stressed them and have contributed to their failure in business.

Further, our study also shows that proxies of [a] choosing a better job rather than entrepreneurship, [b] choosing to secure a job in a longer period, and [c] the possibility of individuals to follow their desire to immediately establish other new ventures but in the condition that the earlier business is still unstable or immature, are

representing the construct of opportunistic behaviour.

We argue that when an opportunistic behaviour of individuals simultaneously combined their internalities and externalities situation, then it will cause and positively contribute to entrepreneurial failure experienced by them. As in the partial regression analysis, we also found that the opportunistic behaviour of individuals could partially cause entrepreneurial failure. In this essence, the correlation between the opportunistic behaviour of our sample and entrepreneurial failure is explained as the following.

Firstly, our sample who has already had a business but then later has an opportunity to enter into the formal job market tends to leave his/her business and concentrates on working in the job as an employee. Secondly, our study also found that some of our samples have an uncontrollable passion in business that led them to be very aggressive in terms of creating new

ventures. They do believe that business is always about catching up opportunities only – but they forget that they also need to concentrate on the existing business that has been started earlier. This obsessive passion has made some of our sample tend to follow their desire to immediately establish other new ventures in the condition that their previous/earlier business is still unstable or immature. We also view this as a psychological circumstance sourced from opportunistic behaviour. This circumstance leads individuals to choose their passion and desire (which could be uncontrollable) to get success soon (i.e. by immediately starting other new ventures) rather than being patience until their initial business reaches maturity stage. Following the finding of our study and a deeper elaboration, we argue that the construct of opportunistic behaviour should not only be considered as a psychological factor that can influence entrepreneurial and firm success. Unlike most of the scholars who

argued that opportunistic behaviour is considered as an entrepreneurial success factor, we rather believe that this construct may have two positions: [1] as a factor for entrepreneurial success, and [2] in the same time, as a factor in entrepreneurial failure.

Conclusion and Implication

We have found that simultaneously, the deterministic, voluntaristic and emotive factors together with the construct of opportunistic behaviour have contributed to the cause of entrepreneurial failure experienced by nascent entrepreneurs. We further believe and argue that the opportunism which is reflected by opportunistic behaviour of individuals, should be both considered as an entrepreneurial success factor and as an entrepreneurial failure factor. We stress this and put our main attention to this issue as the originality and value of our study.

Our study implies that the creation of resilient entrepreneurs should follow entrepreneurial processes and one of the processes could be the failure process

where nascent entrepreneurs will learn from mistakes they have made. Thus, government intervention to strengthen entrepreneurial personality and to focus on psychological aspects regarding nascent entrepreneurs would be a sensible and reasonable policy alternative to be chosen. This can be undertaken by arranging capacity building schemes and programs for nascent entrepreneurs in order to strengthen their psychological aspects that are related to motives, maturity, logical consideration to choose alternatives, decision making processes, dealing with social pressures etc. Other capacity building scheme can be related to the improvement business knowledge where nascent entrepreneurs can learn to manage their business in more effective and efficient ways.

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