*Differing Perceptions of New Venture Failure: A Matched Exploratory Study of Venture Capitalists and Entrepreneurs**

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Using an attribution theory viewpoint, this exploratory study examines new venture failure from the perspectives of both the entrepreneur and the venture capitalist (VC). Contrary to what should be expected, given attribution theory, entrepreneurs acknowledge that internal causes contributed to their venture's failure. On the other hand, VCs attributed the failure to external causes, differing from the entrepreneur's perception of the event. Both the entrepreneur and VC were more likely to attribute the failure of other ventures to internal factors (the fundamental attribution error). This study suggests that entrepreneurs and VCs view failure differently. These differences might cause misapplication of scarce entrepreneurial resources.

- *"The key factor [that caused our failure] was that our external market had changed after we introduced the product."*
- *"Failure to provide the customer what he [or she] wanted cost us some jobs."*
- *"The bad news is that we missed a lot of [problems] that had we been in the business before, we would have caught."*
- *"We had problems moving fast enough in an extraordinarily fast moving industry, so that we couldn't capitalize on the opportunity that we had created."*

The above quotes from entrepreneurs highlight some of the problems that haunt new ventures in their struggle to survive. In fact, Timmons (1994) notes that over 20 percent of new ventures fail within one year, and 66 percent fail within six years. The large percentage of failures and the perceived drain on national resources has been a point of contention. Robert Reich asserts that "chronic entrepreneurialism" is undermining America's competitive strength because entrepreneurial ventures splinter "American manufacturing power into too many small pieces" (Castro 1988, p. 48). The fact that a large percentage of new ventures fail is indisputable; however, others argue that the learning accrued by the failed entrepreneur may

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outweigh the costs to society (Shapero 1981; Vesper 1980). Nevertheless, given the societal costs involved, research is needed to examine the characteristics of new venture failure.

Introducing the effects of venture capitalists (VC) on new venture survival is important because of the differences in failure rates of VC and non-VC backed firms. Although the overall rate of new venture failure is extremely high, Dorsey (1979) found that the failure rate of VC-funded enterprises is substantially lower. Only 18 percent of VC-funded companies failed within seven years compared to 75 percent of non-VC funded firms. Even though the failure rate is much lower for VC-funded entrepreneurs, VCs felt that 20 percent of those surviving ventures would fail to provide an adequate return (Ruhnka, Feldman, and Dean 1992). Ruhnka, Feldman, and Dean termed these ventures the "living dead." Prior research points to a relationship between the presence of VC backing and new venture survival rates.

Given that such a large percentage of new ventures fail, it is meaningful to investigate the perceived causes of their poor performance from the context of both the entrepreneur and the VC. The purpose of this exploratory study is to examine new venture failure from the viewpoint of both the entrepreneur and the VC using an attribution theory perspective (Weiner 1979). A fundamental question is posed: Do entrepreneurs and VCs perceive new venture failure differently? If so, why? Attribution theory provides a useful framework to examine the differences in perceptions regarding the causes of failure. Attributions have important implications for how the entrepreneur and the VC approach the problem of a failing venture (Ford 1985). Incorrect attributions may result in misapplication of resources that could ultimately cause future new venture failures.

Venture Failure Factors

Most organizational studies of new ventures have focused on "successful" endeavors; research on venture failures has been limited for a variety of reasons. First, it is difficult, if not impossible, to do financial analysis on failed new ventures because their financial data are typically not public. Thus, researchers must locate the failed entrepreneurs. As Bruno, Leidecker, and Harder (1986) note, even if an entrepreneur is identified, he or she may be hesitant to discuss the failure. Moreover, those entrepreneurs who do agree to an interview may not understand or be able to articulate the factors that contributed to their demise, especially if a lengthy period of time has passed since the failure (Bruno, Leidecker, and Harder 1986; Bruno and Leidecker 1987). In this instance, the entrepreneur may resort to sensemaking (post-hoc rationalizations of why the venture failed). Attribution theory is of help in understanding this process because it deals with sensemaking; such rationalizations are addressed in attribution theory (Huff and Schwenk 1990).

Some research on new venture failure suggests that the "liability of newness" is important (Stinchcombe 1965). This viewpoint proposes that new organizations fail from a combination of internal and external factors (Singh, Tucker, and House 1986; Venkataraman et al. 1990). A closely related subject, "liability of smallness" (Aldrich and Auster 1986; Stinchcombe 1965), deals with problems small organizations face in their external environments. The "liability of newness/smallness" framework identifies problem factors (internal and external) which inhibit new venture success. Thus, this perspective provides a useful tool for classifying research as either focusing on internal factors, external factors, or both.

One stream of research focuses on the transition from the founding entrepreneurial stage to higher growth rate stages. As the firm progresses through its life cycle (Kazanjian 1988), management aptitude becomes more important than entrepreneurial skill. It is argued that entrepreneurs reach an "executive limit" (Meyer and Dean 1990) at which their inability to mange the firm becomes detrimental. In such cases, ventures that

do not replace the entrepreneur with a professional manager are more apt to fail (Flamholtz 1986; Hambrick and Crozier 1985; Hofer and Charan 1984; Tashakori 1980). This "executive limit" concept illustrates internal causes of failure, specifically, a management coordination and control problem.

Research on the external determinants of survival focuses on economic policies that affect failure. For example, Clute and Garman (1980) found that small business owners believe that Federal Reserve policies that affect the supply of money greatly influence their survival. Adverse government actions, such as the tightening of monetary policy, are perceived to limit the entrepreneur's ability to acquire financing because their new businesses with little track record cannot compete for financing with older, more established firms.

Researchers have attempted to examine the causes of failure from the perspectives of both VCs and entrepreneurs. Ruhnka, Feldman, and Dean (1992) queried VC firms about why certain ventures fail to provide an adequate return. They focused on "living dead" ventures which haven't yet failed but have slim prospects of providing the return originally expected by the VC firm and the entrepreneur. The primary reasons given by the VCs for substandard performance are poor management and unfavorable market factors. Research from the perspective of the VC appears to view both poor internal factors (poor management) and external problems (such as market factors) as contributing to new venture failure, although VCs weigh poor management factors more heavily (Ruhnka, Feldman, and Dean 1992).

Researchers have also viewed the phenomena of new venture survival from the entrepreneur's perspective. Bruno, Leidecker, and Harder (1986) investigated Northern California high technology firms from two periods, those founded in the 1960s and those founded in the 1980s. The researchers conducted interviews with several failed entrepreneurs to assess the causes of failure. In general, Bruno, Leidecker, and Harder found that the perceived causes were consistent between the two time periods. The causes were categorized as product/market (external), financial (external), and managerial (internal).

It is apparent from prior research that survival determinants are perceived in different ways by different people. Most strikingly, entrepreneurs and VCs appear to view causes of failure differently. Entrepreneurs more frequently attribute failure to external factors (competitive market conditions and financing problems), whereas VCs more frequently attribute failure to internal factors (management problems). This difference in perceptions may affect which solutions are pursued when a venture starts to fail. In other words, the entrepreneur and the VC may advocate different solutions based on their perceptions. Since new ventures are resource constrained, it is critical that the two parties agree on the best available course of action.

Weiner (1979) points out that perceptions about situations vary by their locus of causality (internal versus external), stability (temporary versus permanent), and controllability. Depending on the nature of the perception, decision-makers will react accordingly (Ford 1985). Thus, erroneous attributions can lead to actions that fail to correct the problem (or actions that may even exacerbate the problem). Considering the limited resources of entrepreneurial organizations, such a mistake could be disastrous. Since it appears that entrepreneurs and VCs have different perceptions about failure factors, understanding these differences may contribute to an improvement in decision-making and thereby new venture survival. Attribution theory is a useful framework for better understanding these potential differences. This preliminary study will explore these discrepant perceptions in the context of attribution.

Attribution Theory

Attribution theory explains how people perceive and make judgments about stimuli (Fiske and Taylor 1991; Shaver and Scott 1991; Weiner 1979). However,

these attributions are frequently biased or in error. In fact, the fundamental attribution error is to "attribute another's behavior to dispositional qualities, rather than to situational factors" (Fiske and Taylor 1991, p. 73). On the other hand, people tend to attribute their own problems to situational factors. Thus, attribution theory predicts that people are likely to attribute their failures to external causes (Bettman and Weitz 1983; McArthur 1972) whereas they will attribute other people's failures to internal causes. For example, Wagner and Gooding (1997) had 102 managers from an executive MBA program participate in an experiment in which they read scenarios of business situations. When the scenarios had the participants in the role of the manager, they attributed strong performance to their efforts and weak performance to external factors. People resort to such self-serving attributions to maintain their self-perception as astute business persons, because admitting personal fault would imply that they were incapable (Bettman and Weitz 1983; Lau and Russel 1980; Riess et al. 1981; Staw, McKechnie, and Puffer 1983). In other words, people prefer to be a victim of circumstance rather than of their own doing. For example, an entrepreneur whose venture faces impending failure may attribute that failure to external causes because such an attribution spares the entrepreneur's ego.

In fact, Cox (1992) asserts that failed entrepreneurs attribute their troubles to external causes over 85 percent of the time (he generated this estimate from secondary sources).They may think that ascribing their problems to external factors is the best strategy for negotiating with a VC—if they can convince the VC that their firm's struggles are due to external causes, the VC will be more likely to help them ride out the storm.

Huff and Schwenk (1990) propose "sensemaking" as a complementary viewpoint. During good times, entrepreneurs believe that success is attributable to their efforts. However, a subsequent bad outcome challenges the entrepreneur's previous beliefs. Thus, the entrepreneur is likely to attribute the current negative outcomes to external factors. For example, an entrepreneur who has experienced success utilizing a product improvement strategy may fail to recognize that those very same actions might also result in negative outcomes (meaning developing a product that consumers don't want), especially if the product improvement strategy had been successful in the past. Under this scenario, the entrepreneur may attribute the weak demand to external factors, such as a recessionary economy.

Although attribution and sensemaking are slightly different, they both imply that entrepreneurs will attribute their difficulties to external factors. By identifying external causes, such as changes in product market conditions or financing problems, entrepreneurs exonerate themselves and protect their egos. In addition, the entrepreneur may believe that capital will be more forthcoming if the problem is external, since the cause of failure was not poor management but market or external forces. This discussion suggests the following proposition:

P_1: Entrepreneurs more frequently attribute poor performance to external factors rather than to internal factors.

However, as Ford (1985) points out, "constituents expect decision-makers to be in control" (p. 777). The entrepreneur who places all blame on external factors is signaling an inability to realistically appraise the situation. If the entrepreneur requests more capital to alleviate the problem, the VC will likely become wary. Schwenk (1990) asserts that self-serving attributions, such as those that place the culpability on external factors, decrease stakeholder (VC) confidence. Decreased confidence is apt to result in decreased future support, possibly hastening the venture's failure. This explanation is congruent with the Ruhnka, Feldman, and Dean (1992) findings that VCs tend to view internal factors as causing failure. In other words, VCs generally hold entrepreneurs responsible for their difficulties. This suggests that:

P_2: Venture capitalists more frequently attribute poor performance to internal causes, such as poor management, than to external causes.

If entrepreneurs were logical, their explanations of their own venture's failure should coincide with their explanations of all other venture failures. However, following attribution theory, they are likely to commit the fundamental attribution error (Fiske and Taylor 1991). So when discussing their own ventures, entrepreneurs will be more likely to name external factors as the cause of the failure. On the other hand, attribution theory suggests that entrepreneurs will more likely attribute other entrepreneurs' difficulties to dispositional qualities (internal factors). When evaluating scenarios which described other managers as in charge, the managers in Wagner and Gooding's (1997) experiment attributed poor results to the manager rather than to external factors. Moreover, the participants also attributed good results to external factors rather than to the manager (Wagner and Gooding 1997). Likewise, entrepreneurs may feel that a weak local economy is responsible for their own firm's problems, but that another entrepreneur's problems are a function of poor leadership. This discussion leads to the following proposition:

P_3: Entrepreneurs more frequently attribute the poor performance of other ventures to internal factors, whereas they more frequently attribute their own poor performance to external factors.

The attribution framework is highly interesting and has significant implications for entrepreneur/VC interaction and how the parties work together in overcoming problems. Yet studying faltering or failed ventures is difficult. Entrepreneurs in faltering firms are tremendously busy trying to salvage their "baby." Likewise, once a venture fails, it is hard to gather data about privately held firms. Before expending significant time and resources on overcoming these research problems, we chose to do a focused, qualitative investigation utilizing personal contacts within the VC and entrepreneur communities. A qualitative approach allows us to gain a "deep understanding" (Meyer and Zacharakis 1992) of entrepreneur and VC perceptions of failure which should guide a subsequent larger study, assuming we can find a way to identify and gain access to appropriate participants.

Methodology

The data gathering phase of this study consisted of in-depth structured interviews with entrepreneurs and their respective VCs. The interviews were transcribed and content analyzed. Factors leading to failure were identified for both the entrepreneur's specific firm, as well as for new ventures in general. These factors were then ranked according to the frequency with which they were cited. For the purposes of this study, failure was defined as bankruptcy (which included six firms). The other two firms were considered "failing" by the VC who arranged for us to talk with the entrepreneur.

Entrepreneur Interviews

Due to the stigma associated with failure, it was difficult to find failed or failing entrepreneurs willing to participate in this study. Peterson and Ridgway (1985) note that questions regarding failure are potentially threatening because they relate to "issues of self preservation" (Blair et al. 1977, p. 316). However, most of the entrepreneurs who were contacted were willing to grant interviews, with only a few refusing. None of the entrepreneurs who declined to be interviewed cited explicitly a reluctance to speak about their organization's failure as a reason for declining to participate.

Peterson and Ridgway (1985) stress the importance of making interviews non-threatening in order to reduce response bias. Therefore, questions were carefully structured and ordered to reduce the perceived negativity of each question (Sudman and Bradburn 1974). In addition, we used open-ended questions which, according to Bradburn and

Sudman (1980), are perceived as less threatening than close-ended questions.

Even though the study relies on the VC's and entrepreneur's recollection of the events leading to failure, retrospective sensemaking should not be a significant problem in this case because what is important in this study are the causes to which they attributed failure, not the actual causes of failure (Salancik and Meindl 1984; Schwenk 1990). Additionally, no prescriptions are offered in this study to address failure. This distinction is important because, as Cox (1992) warns, researchers of new venture failure often make prescriptions based on flawed studies that fail to account for response bias. In particular, Cox notes the tendency of failed entrepreneurs to make self-preserving attributions, which means they may not realistically evaluate the true factors leading to their demise. Recognizing this potential pitfall, this study makes no prescriptions on how to avoid failure. Instead, we hope the study offers insights into the tendency to make self-serving attributions (see Proposition 1), thereby encouraging entrepreneurs and VCs to take a step back and delve into the underlying causes of problems that all new ventures inevitably face.

The convenience sample consists of eight high-tech entrepreneurs from Colorado's Front Range region. All the firms were involved in manufacturing. Failed and failing firms were identified by personal knowledge and with the help of VCs friendly to the authors and our university. All the firms were over five years old and employed from ten to over 500 employees. Table 1 further describes the demographics of the firms.

Venture Capitalist Interviews

Upon completion of the entrepreneur interviews, interviews were conducted with the entrepreneur's former venture capitalist, if (s)he was available (only five VCs were accessible). There were two VC firms and four different VC officers of those firms (one of the VC officers responded on two of the ventures). Both firms were over 10 years of age and had $78 million and $118 million under management, respectively. The primary focus for both VC firms was early stage investments (seed through second stage), and they tended to invest in high technology ventures. All the VC officers were partners in the firm and had been with the VC firm from its inception. Table 1 also briefly provides demographics for the participating VC firms. It was suspected

Table 1
Entrepreneur and VC Demographics

Entrepreneur	
Industry	6 computer hardware 2 computer software
Firm age at time of failure	Greater than 3 years, less than 5 years .... 2 firms Greater than 5 years, less than 10 years .... 6 firms
Number of Employees	10 – 24 .... 3 firms 25 – 99 .... 2 firms over 100 ... 3 firms
Venture Capitalist Firms (n = 2)	
Age	10 years, 11 years
Capital under management	$78 million, 118 million
Preferred investment amount	$250,000-750,000; $500,000 - $1M
Stage of investment	Seed-First Stage; Seed-Second Stage

that the VCs would find the interviews less threatening because most ascribed causes of failure are external to the VC's involvement (meaning factors such as product market conditions or inadequate management). Even so, the interview was parallel to the entrepreneur interview to facilitate comparative analysis.

Analysis

Structured interviews were used to build a database on venture failure. Content analysis was then conducted on each interview transcript following the general guidelines put forth by Weber (1985). Content analysis is particularly useful in entrepreneurship research (Marino, Castaldi, and Dollinger 1989). It identifies the manifest content of a communication (Berelson 1952) and entails counting the number of references underlying a particular theme. In addition, content analysis can also assess the "intensity of certain statements" (Marino, Castaldi, and Dollinger, p. 56). Again, the major goal of this study is to identify the causal attributions put forth to explain venture failures; specifically, attributions of internal or external causes. Internal causes originate within the entrepreneurial firm and include poor management, obsolete technology, and initial undercapitalization. External causes originate outside of the entrepreneurial firm and include product market conditions, competition, availability of financing, and material costs.

Three judges were trained by the authors to categorize themes from the interview transcripts. A transcript from a "trial" interview (one used to test and refine the understandability of the structured interview instrument) was used to train the judges (Weber 1985). Theme categories were derived from literature, from the "trial" interview, and from initial examination of the trial interview transcript. The groupings were subdivided under external and internal factors. The judges categorized the themes into the most appropriate classification by first assessing whether the respondent was citing a factor external or internal to the firm, and then designating the theme to the most appropriate subgroup under the external or internal heading.

Inter-judge reliability was about 84 percent for the initial classification of whether the theme was either an external or an internal factor. Overall inter-judge reliability (consistency of classifying into all possible subcategories) was 65 percent. Berelson (1952) reports that inter-judge reliability typically ranges from 66 percent to 95 percent. Although the classification into subcategories is at the low end of the spectrum, the lower inter-judge reliability may be due to the fine-grained nature of the subcategories. In order to gain a richer understanding of the failure factors at this preliminary stage, some of the sub-categories used were somewhat related and overlapping.

Once the content analysis was completed, each identified factor was weighted according to the ranking that the respondent explicitly gave for that factor or according to the frequency with which the respondent cited the factor. For example, some of the respondents ranked the failure causes verbally (meaning they said "first, external factors... second, internal factors..."). Other respondents did not explicitly rank the causes. In such cases, the ranking was determined by the frequency (or the percentage of time) with which the respondent spoke about that factor (Weber 1985).

Since the three judges did not completely agree on the categorization of every theme, only those themes that were agreed upon by at least two of the coders were considered. Each ranked response was reverse scored (ranging from five down to one). That is, the first ranked factor for each respondent was scored a five, the second ranked was scored a four, and so forth. Some factors were deemed a tie because the respondent gave equal attention to each factor in his or her reply. In such cases, the subsequent factors were scored as if the preceding factors hadn't tied. For instance, if two factors were deemed the most important, they tied for the number one ranking and each received a score

Table 2
Firm-Specific Failure Determinants

Entrepreneur (n=8)		Venture Capitalist (n=5)	
E- Poor external Market Conditions	25	**E-** Poor External Market Conditions	40
I- Poor Management Strategy	13	**I-** Lack of Management Skill	9
I- Lack of Capitalization	9	**I-** Poor Product Timing	4
E- Poor Supplier/Vendor Relations	9	**I-** Poor Management Strategy	3
I- Key People Incompetent	9	**I-** Lack of Capitalization	3
I- Lack of Management Skill	7	**I-** Failed Implementation	2
I- Lack of Management Vision	5		
I- Poor Product Design	5		
I- Failed Implementation	5		
E- Poor VC/Shareholder Cooperation	4		
I- Lack of Technical Capabilities	4		
E- Low Funding Availability	3		

E- external factor **I-** internal factor

of five. The next most important factor was ranked as number three and received a score of three. Aggregated rankings were then compiled for both the entrepreneurs and the VCs. The two lists were then compared to assess whether the entrepreneurs and the VCs in fact had different perceptions of venture failure.

Results

The small sample size prevents us from generalizing the results of this study to the population of entrepreneurs and VCs. Nonetheless, it is hoped that this exploratory investigation sparks interest in further research. Readers are asked to keep the focused sample in mind when interpreting these results.

Firm Specific Failure Factors

Both the entrepreneur and the respective VC were queried as to the causes of failure of the specific venture in which they were involved. Table 2 summarizes the results.

It appears that entrepreneurs within this sample primarily attribute their

Table 3
General Failure Determinants

Entrepreneur (n=8)		Venture Capitalist (n=5)	
I- Lack of Management Skill	20	**I-** Lack of Management Skill	18
I- Poor Management Strategy	15	**I-** Poor Management Strategy	13
I- Lack of Capitalization	14	**I-** Lack of Capitalization	13
I- Lack of Vision	13	**E-** Poor External Market Conditions	10
I- Poor Product Design	11	**I-** Poor Product Design	5
I- Key Personnel Incompetent	9	**I-** Poor Product Timing	5
I- Poor Utilization of Debt	7		
E- Poor VC/Shareholder Cooperation	5		
I- Poor Product Timing	4		
E- Poor External Market Conditions	3		

E- external factor **I-** internal factor

failure to *internal* and not the hypothesized *external* factors. Although the most frequently cited factor for failure was poor *external* market conditions (which include competition, slow market growth, and small market size), the examination of the aggregate frequency of the factors finds that *internal* factors were cited 58 percent of the time. Poor management strategy is the most frequently cited *internal* cause of venture failure. Some examples of this reasoning include:

> *The lack of research and information about what the product would do or where our market was [hurt us]. It seemed at times – monthly — like our focus might change. It is extremely hard to get a game plan, when we are [always] changing. Focus keeps moving down somewhere else and then back to another place.*
>
> *Lack of knowledge, lack of education and lack of experience in the field.*

The candor of the entrepreneurs illustrates their willingness to see personal mistakes as contributing to failure. As can be seen by the sample quotes, entrepreneurs do not necessarily attribute failures to *external* causes.

Examination of the VC perceptions is surprising in that VCs tended to attribute failure to *external* factors. VCs attributed *external* factors to venture failure 66 percent of the time. As with the entrepreneurs, the most frequently cited cause was poor *external* market conditions. Sample quotes follow:

> *There was a depressed cycle in the market.*
>
> *They had extremely strong competitors in the industry.*

These results would seem to contradict the Ruhnka, Feldman, and Dean (1992) study that found that VCs saw management weakness as the primary determinant of poor venture performance. VCs within this sample weren't inclined to attribute failure to management weakness (*internal* factors).

Failure Factors in General

In addition to exploring entrepreneur perceptions about firm-specific failures, this study also examined their perceptions about new venture failure in general (see Table 3).

Entrepreneurs attributed new venture failure in general to *internal* factors 89 percent of the time. The following quote illustrate the tendency to attribute failure to internal causes, when one is not discussing one's own firm:

> *Marketing efforts. Sales efforts to be even more specific. Or lack thereof. You see too many products out there but they're not a new mouse trap. People can't buy into it.*

Although this result is in the same direction as the results shown in Table 2 (*internal* factors were cited 58 percent of the time when considering one's own firm), it appears that entrepreneurs within this sample were more apt to attribute the failure of other new ventures to *internal* causes, while still leaving room for *external* causes to explain their own problems.

VC perceptions about new venture failure in general were consistent with the Ruhnka, Feldman, and Dean (1992) study. VCs overwhelmingly attributed the failure of most new ventures to *internal* causes (84 percent). The following quote is illustrative:

> *The major cause of failure is probably management and its inability to recognize the marketplace and accurately assess market size and accessibility.*

The results of the content analysis seem to indicate that entrepreneurs, as well as VCs, are prone to making the fundamental attribution error.

Discussion

"There are a hundred reasons for success and there are a thousand reasons for failure," noted one of the participating VCs. The question is whether the entrepreneur's assessment and the VC's assessment agree with each other. If the entrepreneur and VC don't agree, it is likely that they might misinterpret problems early on when there is still time to take corrective action. The content analysis from our focused sample indicates some surprising results and inconsistencies.

It is somewhat surprising, for example, that entrepreneurs admit that *internal* factors (cited 58 percent of the time) played a major role in their own venture's problems. "Just a plain lack of knowledge on my part inhibited our success," acknowledged one entrepreneur. This entrepreneur, albeit somewhat more strongly than others, was quick to note some of his own personal shortcomings. Another entrepreneur revealed, "We assembled an inadequate management team and we were late taking corrective actions." Why were these entrepreneurs so forthcoming? Several possible explanations exist. First, a multitude of researchers have ascribed a strong internal locus of control to entrepreneurs (for example, Timmons 1994). Decision-makers like to project the sense of being in control (Salancik and Meindl 1984). If the entrepreneurs attribute their problems to external factors, they are admitting that they cannot control the success or failure of their firm. On the other hand, attributing failure to internal factors signals that the entrepreneur can control his or her own fate. Such an attribution may enable the entrepreneur to raise support for future ventures. The following quote illustrates the strong locus of control of one entrepreneur:

> *You know maybe it is my philosophy but I tend not to view things so much in terms of directly whether they are successes or failures. People who view things as failures tend to want to forget it as opposed to just viewing it as an outcome from which you can garner a lot of information and knowledge and then apply that in other situations. As a result, it becomes something of a success for you.*

Second, most of the entrepreneurs in this sample were initially identified by various VCs as being "more willing to talk." It is conceivable that the VCs identified those entrepreneurs whom they felt were victims of circumstance. Thus, this sample of entrepreneurs might have been more open because they did not feel that the failure was attributable primarily to their incompetence. Finally, it must be acknowledged that most of the entrepreneurs we spoke with have had past or subsequent records of success. One of the entrepreneurs had had two previous successful startups and four of the entrepreneurs have had subsequent successful foundings. However, it should be noted that there weren't any apparent systematic differences between those entrepreneurs who have had previous or subsequent successful entrepreneurial experiences and those who have not. It appears that the isolated failure doesn't represent a repudiation of the entrepreneur's general ability. Thus, the entrepreneurs in the sample can point to their successes and rationalize that the failure was an anomaly.

It is interesting that the entrepreneurs tended to attribute the failure of other new ventures to those in charge of these ventures at a substantially higher rate than for themselves (89 percent versus 58 percent). For example, one entrepreneur said:

> *I think that the product really doesn't meet a need. I think that even if it does meet a need, that the money wasn't managed well enough to help the product to get to where it needed to get. The [entrepreneurial] team is at the root of most failures.*

Assuming that the entrepreneur's venture is representative of all new ventures, one wonders why the results of Table 2 and Table 3 don't more closely match. Basically, while entrepreneurs acknowledge internal factors as *contributors* to their own venture's failure, they believe that internal factors are the *predominant* determinant for other venture failures. Let's take a closer look at the entrepreneur cited earlier in this paragraph. He suggests that as long as the product meets a need and the firm is well managed, it should succeed. Yet, he indicated that while his product met a need, unilateral revisions on the part of a key vendor where responsible for his firm's decline. Why wasn't his entrepreneurial team able to overcome this difficulty? This finding should cause entrepreneurs to pause; are their self-attributions correct, or are the attributions about others

correct? An error is being made in one direction or the other, or possibly both.

The VC responses to specific firm failures (attributing the failure to *external* factors 66 percent of the time) were especially surprising since they contradict the Ruhnka, Feldman, and Dean (1992) findings. For example, one VC focused on competition (external factor) and the difficulty a small firm had competing with these larger organizations.

> *Competition. We had a credibility issue of being a small company in the industry coupled with the fact that our product was a major commitment for the buyer. This put us at a disadvantage relative to our larger competitors.*

The level of competition and changing market dynamics are factors that the entrepreneur and VC could have anticipated. In that sense, the VC's statement might be considered internal, but the tone and nature of the comment imply that the "playing field was uneven;" smaller entrepreneurial firms may not have the resources to overcome their "liability of smallness" (Stinchcombe 1965). Moreover, when one looks at the Runka, Feldman, and Dean (1992) findings that poor management is the problem, it is apparent that the VC's tone is far more understanding when examining a particular venture in his portfolio. It is plausible that when the VCs were talking about a specific firm (and thereby a specific entrepreneur), they might have been reluctant to attribute failure to that individual. Again, since the entrepreneurs that we spoke to were identified by VCs as "more willing to talk," the VCs might have suggested entrepreneurs whose failure was out of their control, because such entrepreneurs were perceived as more willing to discuss the failure.

A second, more likely, explanation might be that the VCs in this sample were so involved in the day-to-day operations that they were essentially occupying a managerial role. In other words, they weren't far enough removed from the situation to objectively view the causes of failure. For example, notice how the VC uses "we" in the following quote, implying active involvement in the venture:

> *We couldn't compete price wise. It's a brutally competitive industry. This market is a very difficult market to launch a new startup in. One can argue that the industry is oversupplied as it is with products of this type. The price pressures are enormous, and unless you're a very large, high volume, low cost producer, you are not going to be able to compete. And in this case, we were a startup trying to be a low cost supplier... there is just no way we could do that. And, we were late. We missed our window.*

Again, this VC attributes problems to fierce competition rather than to poor management decisions. Thus, VCs were possibly making self-serving attributions to maintain their self-perception as astute business persons (Bettman and Weitz 1983). In effect, the VCs were sharing the venture leadership role with the entrepreneur.

The fact that the results of Table 3 (by VCs) contradict those of Table 2 (by entrepreneurs) lends further credence to the explanation that the VCs were too heavily involved in the individual venture's demise. When it was one of the VCs' chosen ventures, the VC attributed the failure to external factors; but, when the VC was detached from a venture, he or she tended to attribute failure to internal causes (84 percent of the time). For example, the same VC cited above focused on the management team when discussing failure in general.

> *[Entrepreneurs often] don't build a complete management team. They fight these things because they want to be totally in charge. If the management team doesn't execute, the company can fail.*

These findings seem to match those expected under attribution theory. People tend to attribute their own failures to environmental circumstances, but others' failures to personal flaws (Fiske and Taylor 1991). VCs tend to attribute failure to *internal* causes such as man-

agement capability as long as they are professionally distanced.

Conclusions, Limitations, and Future Research

Hambrick and Crozier (1985) point out that entrepreneurs (like everybody else) frequently fail to recognize their limitations. As such, they may be inclined to incorrectly attribute their difficulties to external factors. However, our exploratory study suggests that entrepreneurs do acknowledge that internal factors contribute to their difficulties. Nevertheless, they view the difficulties of others far more harshly (attributing internal factors 58 percent of the time for their ventures, but 89 percent of the time for others' ventures). This discrepancy suggests that entrepreneurs are inaccurately attributing the causes of their difficulties or those of other entrepreneurs, because in aggregate the individual firm failure factors should match failure factors for firms in general.

If indeed the entrepreneurs are inaccurate in their attributions, their chances of survival in future ventures could be greatly diminished because they are probably directing their problem-solving efforts to the wrong place. Thus, if entrepreneurs erroneously attribute external factors (or internal factors, for that matter), they may misapply their energy and resources. Given that entrepreneurs possess limited resources, such actions could threaten organization survival. However, it is encouraging to note that entrepreneurs cited internal causes (58 percent of the time) as failure factors for their own firms. It suggests that entrepreneurs do realistically appraise the situation, not immediately blaming external factors. Therefore, they may be more effective in correcting problems, at least in their future ventures.

The most surprising finding in this study is that VCs attribute failure to external causes when viewing a specific firm. Again, it was suggested that this finding might be a function of the VC's close personal involvement in the entrepreneurial firm. Thus, the VC might be engaging in "impression management," or the VC might be attributing the failure to external factors to preserve his or her own ego. In either case, the implication is clear—if VCs fail to keep their professional detachment, they may be inclined to make faulty attributions. Such a case would be extremely detrimental to the entrepreneur, because it might deprive him or her of a "voice of reason." The VC wouldn't correctly assess the problem, thereby failing to suggest a better course of action. Unfortunately, the entrepreneur's limited resources don't allow too many false steps.

This study has brought forth several intriguing results. However, it must be acknowledged that the nature of this study, especially the small sample size, makes these results tentative. In particular, the sample wasn't conducive to statistical analysis, because of the small sample size. A larger sample is needed to test whether these hypotheses are generalizable to other VCs and entrepreneurs. It is unfortunate that time and money prevent most researchers from conducting large scale personal interviews, but this in-depth smaller study has allowed us to gain a deeper knowledge which can guide future model development and research design.

The study of entrepreneurial failure is important and valuable in assisting entrepreneurs and VCs in overcoming the problems that new ventures face. However, the question remains as to whether large-scale empirical research is feasible. Once a venture fails, it is difficult to locate many secondary sources of data for what are mostly privately held firms. It is also difficult to contact the entrepreneur once a firm ceases to exist. Even when the entrepreneur is located, he or she may resist participating because of the pain of the failure. The question is how to overcome these obstacles. Clearly, appropriately structuring our interviews helped, but an anonymous and confidential survey might reduce "halo effects." Although the interviews might be biased, the interesting part of this study is the discrepancy between the entrepreneurs and VCs.

Overall, this study highlights the dangers of inaccurate attributions. If entrepreneurs incorrectly assess a situation, they may pursue the wrong course of action. A series of wrong attributions will likely lead to failure in entrepreneurial firms. It is hoped that this study will create a higher awareness of these pitfalls.

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