Defining business decline, failure and turnaround: a content analysis

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Abstract

In the past, researchers have often defined failure to suit their data. This has led to a lack of comparability in research outputs. The overriding objective of this paper is to propose a universal definition for the failure phenomenon. Clear definitions are a prerequisite for exploring major constructs, their relationship to failure and the context and processes involved. The study reports on the core definitions of the failure phenomenon and identifies core criteria for distinguishing between them. It places decline, failure and turnaround in perspective and highlights *level of distress* and *turnaround* as key moderating elements. It distinguishes the failure phenomenon from controversial synonyms such as closure, accidental bankruptcy and closure for alternative motives.

Key words and phrases: business decline, failure, turnaround, level of distress

Introduction

Understanding business failure presents an enormous theoretical challenge that still fundamentally remains to be met, probably because past efforts were more concerned with prediction than with understanding. That such a challenge has largely gone unanswered is fairly easily understood (Cybinski, 2001:39; Shepherd, 2005:126). The lack of understanding of the concept is partly due to the lack of an adequate definition of failure. (Shepherd, 2005:124). Researching the failure arena quickly shows that various authors have different interpretations of failure and that no one universal definition exists. Existing writings about failure are dominated by prediction models but diverge into several fields, and the differing focuses and objectives of researchers create an ill-defined domain, made up of several overlapping fields (Shepherd, 2003). Existing research also appears problematic because of the current definition of failure and the ways in which failures have been measured in the past (De Castro, Alvares, Blasick & Ortiz, 1997:1). While financial prediction of failure (which uses bankruptcy as dependent variable) takes up a large portion of failure-related research, this study explores outside the limitations of prediction (Balcaen & Ooghe, 2005; Steyn Bruwer & Hamman, 2006) by investigating the qualitative rather than the quantitative end of the continuum.

If it is true that between 50 and 90 percent of entrepreneurial ventures fail (depending on the author and statistics quoted), failure is probably the one thing that almost all entrepreneurs will face somewhere in their endeavours. At the same time, failure is probably the last thing on the mind of an entrepreneur starting out on the entrepreneurial process.

Given the “survival of the fittest”, failure is a natural step in the life cycle of business ventures. Organisational ecology (as a metaphor) further asserts that the environment will naturally weed out unfit organisations, and that the ability to survive over time is a function of both an organisation’s suitability to the current environment and its ability to adapt appropriately if the environment evolves. Misalignment with the environment may therefore expose firms to different liabilities associated with failure (Barron, West & Hannon, 1994:381).

There exists a limited but growing body of knowledge on the topic of failure on which researchers can base their investigations, especially in the small business domain. The research articles are, however, scattered across business, management, financial, psychology, entrepreneurial and many other journals and no proof could be found that these works have ever been comprehensively reviewed. There is no specific body of science to which failure exclusively belongs. While this study focuses on failure in business ventures, it does not ignore failure in other organisations, such as quasi- and government ventures. This study prefers the term *venture*, but uses it interchangeably with *business*, *firm* and *organisation* as terms, depending on how different authors have reported their research in the literature.

Business ventures hover somewhere between the extremes of the success-failure continuum, which influences the decisions that ventures are faced with, and the potential consequences of failure have significant and interesting impacts on business decisions (Cybinski, 2001:31). Failures draw attention all the time, whether they occur during start-up or in mature ventures, and it appears that failure is inherently part and parcel of the science of business management. If failure is indeed central to the entrepreneurial thrust of ventures, better understanding of the domain will benefit both the science and the practising entrepreneur overall. Recently there have been two special editions of journals (*Journal of Business Venturing* and *Long Range Planning*) that focused on failure, which also points to the resurgence of failure as a research domain. There also appears an outcry for better understanding of the failure domain since the onset of the world economic crisis in 2008.

The importance of failure in business has been acknowledged in reports of crises in companies that have dominated the news in recent times. Several icons of business such as Worldcom and Enron were not spared failure, leading to investors losing large portions of their assets. Experts greet the news of these failures with post-mortems on what could have been done to avoid the decline. Some reviewers, with the 20/20 vision of hindsight and expensive financial prediction models, express amazement that management did not foresee and respond to critical events in time to prevent termination. Obviously, it is easier to make up prescriptions after events have occurred than it is to prescribe ways to avoid problems in the future (Probst & Raisch, 2005:90).

It is also true that often one cannot really describe something without explaining what it is not. In the search for the secret of venture success (lower failure rates), it helps us to look at failure for improved understanding. The research question is therefore one of making sense of the failure phenomenon in order to improve the understanding of successful business by describing what it is not. Thus, this study aims to support not only researchers but also entrepreneurs and practitioners. Entrepreneurs could benefit from this improved understanding to reduce high failure rates of 80 to 90 percent, as reported by Knott and Posen (2005:617). Distinguishing between decline and failure gives direction to entrepreneurs about strategies to pursue when attempting recovery in their ventures.

Aim of this study

This study has one principal aim: It seeks to review the scientific literature on business failure through grounded theory methodology and to identify the universal constructs of the failure phenomenon. It therefore attempts to advance research at this promising intersection of entrepreneurship, business management and the cognition sciences by mapping the territory meaningfully in order to direct entrepreneurs and researchers through the failure domain.

The overriding objective is therefore to propose a universal definition of the failure phenomenon as a first step in exploring the major constructs, their relationship to failure and the context and processes involved, thus providing a better understanding of the phenomenon that goes beyond a descriptive account.

Method of review

The specific research need identified in this study is to better understand and make sense of failure, rather than predict failure, although the two focuses are related and a large number of recently published works have been in the field of failure prediction, as reported by Sharma (2001:5). The specific methodology (emulating that of Forbes, 1999) adopted in this study was selected because secondary sources of failure are limited (especially in developing countries), as failed firms disappear and entrepreneurs of failed ventures rarely like to talk about the reasons that led to failure. Even when they do speak out, such explanations are likely to have self-reporting and retrospective reporting biases (Shepherd, 2005:126).

Scientific resources from the ABI-Inform, Ebsco-host, Proquest, Blackwell and other databases were searched for titles published since 1985. The date was somewhat arbitrarily determined (though not necessarily adhered to) and based on convenience, as this was the earliest date for which most databases had downloadable electronic titles, abstracts and full texts readily available. For apparently major works, the date was not a limitation, especially when an article was referenced widely. Age of publication was not considered important, but relevance and contribution to the body of knowledge of failure were paramount.

At first a search for *failure*, combined with business, venture, firm or organisation was conducted. Initial searches were keyword-based and narrowed down by using the different keyword variants identified during the process. As the articles (data) were obtained, searches were extended to include terms such as crisis, decline, discontinuance, distress and more. All articles were scanned based on titles and abstracts that led to a first complete reading of each article that was deemed to cover failure-related issues, using a method similar to that described by Forbes (1999:417). When *prediction* was used in conjunction with failure, a plethora of articles were found in a range of financial and accounting journals and it was clear at this early junction that failure prediction (from the financial perspective) made up a large part of the total research base associated with failure. Balcaen and Ooghe (2005:24) confirm that corporate failure prediction has become a major research domain within corporate finance.

Second- and third-round searches were conducted using author names in addition to keywords for cross-referencing. Thereafter specific journals were searched. Key journals included *Journal of Business Venturing, Entrepreneurship Theory and Practice, Academy of Management Review, Sloan's Management Review, Academy of Management Executive, British Journal of Management, Administrative Science Quarterly, Long Range Planning, Strategic Management Review, The British Accounting Review, Organisational Science, Journal of Small Business Management,* but were not limited to these. References of important articles were then searched and accessed to build up an extensive list of articles.

The definitions of failure were mapped through a snowball process where references in one article lead to the search for the next articles with definitions. Articles covering all failure-related terms were investigated to identify more references. These articles were then obtained and the process repeated to identify the key works referenced by the different authors.

Borrowing from Corbin and Strauss's (1990) method on grounded theory research, concepts for each definition were identified and through repetitive scrutiny and comparison within the "conditions" for each definition, the concepts were categorised towards building a definition of failure. The categories were the cornerstones of the definitions eventually developed.

After reading (analysing) the abstracts of the articles, papers that in fact represented failure-related issues were selected based on personal understanding of the issues. Thereafter each article was assessed for definitions and identified and key concepts reported. Categorising the concepts into sub-domains (categories) of failure-related issues (Pretorius, 2008b) was followed by reporting them individually with their specific contributions, based on Corbin and Strauss's method (1990:7). Articles without clear definitions were discarded for reporting in this study.

Eventually a list of key references was assembled. The process of adding articles was never officially stopped but drifted towards closure as no more "useful new information" came forth, in accordance with the principles suggested by the grounded theory research process. This meant that the real number of articles screened became less important than initially anticipated when I embarked on the study.

Findings

The report of the findings of the research covers, firstly, the outcome of the definitional approach. Secondly, it explores the criteria for constructs contained in the definitions. Thirdly, it proposes definitions and finally highlights key elements. The final definition of turnaround is proposed to suggest the key difference between decline and failure.

While many authors failed to propose a definition to guide their research and depended on the general understanding that readers might have about the phenomenon, many definitions with varying viewpoints were found. The variations confirm Shepherd's (2005:124) statement that the lack of a single definition of failure is partly responsible for the poor understanding of the phenomenon. Failure is defined in as many ways as there are researchers. Watson and Everett (1999:9) report that many of the differences in reports of sectoral failure rates may be driven by choice of failure definition. Balcaen and Ooghe (2005:23) state that the assumption of dichotomous datasets (failure vs. success or non-failure) to enable accurate predictions neglects the multidimensional nature of failure and is in conflict with the reality of failure situations. Steyn *et al.* (2006:11) also report a list of definitions by South African authors that underscores the lack of a definition outside those dichotomous types used for prediction purposes.

As the research progressed and while probing the different databases, it was found that failure is associated with bankruptcy, liquidation, insolvency, crisis, decline in performance, decision-making, collapse, crashing, accounting practices, project failure, distress, trouble, systems failure, franchise failure, being non-successful, and more. Therefore the eventual search terms focused mainly on business, organisational, corporate, venture, and enterprise decline, failure and turnaround and less on prediction. Table 1 shows the variation in definitions and how they are influenced by the researchers' focuses during investigation.

Table 1: Synthesis of principal works based on the definitional perspective

Definition	**Key definition constructs**	**Apparent Researcher focus**	**Type of study**	**Reference**
Decline focused definitions				
Decline: Degeneration of organisational performance in sales, profitability, market share and technological leadership	Performing worse	Decline signs, causes and preventative strategies	Theory	Lorange & Nelson, (1987)
Performance decline: Decrease in some measurement such as sales, workforce, profits or profit ratios (ROI or ROE) that has continued for some time.	Measurement and duration (time) of decline	Performance decline		Weitzel & Jonsson, (1989)
Decline: Refers to decreasing internal resource munificence over time with respect to two critical resources: financial and human (managerial) resources.	Decrease in internal ability to survive Time	Aftermath of decline compared with non-decliners. Patterns of decline.	E	D'Aveni (1989:578)
Decline: Organisations enter a stage of decline when they fail to anticipate, recognise, avoid, neutralise or adapt external or internal pressures that threaten the organisation's long-term survival.	Management stages and signs and actions Trigger point	Internal systems to detect conditions that may lead to decline	Case	Weitzel & Jonsson, (1991)
Decline and crisis are the low and high extremes of the rate of performance deterioration.	Level and rate of performance deterioration	Decline and crisis impact on turnaround and debt financing		Chowdhury & Lang (1993:8)
Financial distress: Fall of a firm from a superior performance position to an extremely poor position on any appropriate performance criterion – specifically Taffler's Z-value.	Decline from superior position to poor position. Rule = +, +, -. Two years' good performance followed by poor.	Turnaround strategies		Sudarsanam & Lai (2001:190)
Decline and deteriorating financial performance measured by bankruptcy and dramatic fall in market value	Decline Deterioration of financial performance	Crisis, crashing and collapse		Probst & Raisch (2005:90)
Failure focused definitions				
Failure: Firms that filed bankruptcy after having their shares trading publicly in the years prior to bankruptcy	Bankruptcy after being successful	Leadership change during decline		Schwartz & Menon (1985: 681)
Failure: Bankruptcy (excluding intentional bankruptcy that was used as a legal tactic).	Bankruptcy	Consequences of decline compared with non-decliners.	E	D'Aveni (1989:585)
Failure or severe form of financial distress such as loan default or non-repayment of creditors.	Severity Default	Prediction models	Literature review	Keasey & Watson (1991:89)
Failure occurs when the level of organisation capital reaches zero. It is no longer able to meet its financial obligations to debt holders, employees, or suppliers and resorts to or is forced into bankruptcy or liquidation.	Organisational capital	Model for understanding resource buffer and mortality relationship	Theory	Levinthal (1991:401)

Table 1 continues

Failure means closure of a unit but not total closure (within a franchise organisation)	Closure	Franchise failure comparison		Castrogiovanni, Justis & Julian (1993:106)
Failure: A firm that has gone out of business with losses to its creditors	Not operating any longer Losses			Duncan & Handler (1994:7)
Business dissolution refers to single business corporations that shut down and multiple business corporations that shut down a single business and includes both voluntary liquidation and involuntary bankruptcy.	Shut down Choice vs forced bankruptcy	Effects of business sales and age dissolution and divestiture	E	Mitchell (1994:576)
Failure: Business failing organisations are those that will become insolvent unless appropriate management actions are taken to effect a turnaround in financial performance	Pending insolvency Requirement for alternative management action	Configurations of factors leading to failure		Richardson, Nwankwo & Richardson (1994:9).
Failure: Firms involved in court procedures or voluntary actions which result in losses to creditors excluding discontinued ventures	Losses to creditors	Non financial failure prediction	E	Lussier (1995:9)
Failure: Ceased operations due to outright insolvency, and/or when a firm has ceased operations in order to stop continued losses	Ceased operations Outright insolvency. Continued losses	Closing vs disappearance vs failure		De Castro, Alvarez, Blasick & Ortiz (1997:4)
Financial crisis: Closure of the firm resulting in large-scale social and economic costs	Ceased operations	Crisis in banks that led to closure (failure)		Stead & Smallman (1999:13)
Failure is defined as bankruptcy	Bankruptcy	Comparing failure attribution between venture capitalists and entrepreneurs	6 Cases	Zacharakis, Meyer & DeCastro (1999:5)
Failures refer to deaths of entire firms and industry exits by multiple business companies.	Closing or exiting the industry	Strategy and age dependence	E	Henderson (1999:291)
Discontinuance (ceasing of operations) of business for any reason or bankruptcy or failing to “make a go of it”.	End of operations	Failure rates and defining failure	E	Watson & Everett (1999:5)
An initiative can be said to have failed when it is terminated as a consequence of actual or anticipated performance below a critical threshold (fallen short of its goals)	Termination Performance below critical threshold	Real options reasoning and anti-failure bias		McGrath (1999:14)
Failure is “not having made profit for the previous three years”	Losing money	Non-financial prediction	E	Lussier & Pfeifer (2001:232)

Table 1 continues

When fall in revenue and/or rise in expenses are of such magnitude that the firm becomes insolvent and is unable to attract new debt or equity funding; consequently it cannot continue to operate under the current ownership and management.	Insolvency and involuntary change in ownership and management.	Grief of owner and recovery after losing a business, Failure research	T	Shepherd (2003:318), Shepherd (2005:124)
Bankruptcy is the ultimate reason for exiting the economy and happens when firms lack sufficient capital to cover their obligations. Firms that are insolvent to the point of legal proceedings have clearly failed to meet the market's performance threshold of fulfilling their financial obligations.	Exiting the economy or not meeting the "performance threshold" of the market.	Resource-based view of failure with age of firm as proxy for resource differences between firms.		Thornhill & Amit (2003:497)
..success and failure were identifiable as "end states" …	End state	Small business failure	Single case	Ritchie & Richardson (2004:236)
Organisation failure is the end result of a decline	Failure follows decline	Turnaround	Case application	Sheppard & Chowdhury (2005:241)
Failure, in organisations and elsewhere, is deviation from expected and desired results.	Deviation from goals	Learning	Theory	Cannon & Edmondson (2005:300)
At the time of failure the "legal status" of the firm was bankrupt, meaning it had suspended payments against creditors and had lost all credit	Legal status Credit loss	Prediction	E	Pompe & Bilderbeek (2005:851)
A major loss of value rather than bankruptcy	Value loss	Board role in renewal	Qualitative	Hass & Pryor (2005:12)
Failure occurs when a firm's value falls below the opportunity cost of staying in business	Performance decline	Measuring decline	Theory	Cressy (2006:103)
… firms whose stocks are delisted as a result of either bankruptcy or liquidation elections.	Distress	Prediction		Joseph & Lipka (2006:296)
Turnaround focused definitions				
Turnaround situation is when a firm has had two successive years of ROI and ROS growth followed by: absolute simultaneous declines in both for a minimum of two years and a rate of decline greater than the industry average over the two year period.	Decline in ROI and ROS for two years after success for two years	Turnaround: retrenchment and recovery		Robbins & Pearce (1992:295)
Turnaround management is a process whereby managers actively seek to save distressed firm from failure.	Save distressed firms from failure	Difference between distress and failure	E	Fredenberger & Bonnicic (1994:59)

Table 1 continues

A successful turnaround is when a firm undergoes a survival-threatening performance decline over a period of years but is able to reverse the performance decline, end the threat to firm survival and achieve sustained profitability.	Reverse performance decline	Turnaround process	E	Barker & Duhaime (1997:18)
Turnaround is a concerted and organised effort by top management to respond to the firm's performance problems.	Top management induced effort	Turnaround	E	Barker & Moné (1998:1239)
Once profitable firms that have suffered firm-threatening performance declines and are attempting, either successfully or unsuccessfully, to turn around.	Once profitable Now decline	Performance decline	E	Barker & Barr (2002:968)
Organisations that are not demonstrating performance that is acceptable to stakeholders, analysts, vendors and employees. require a turnaround intervention.	Unacceptable performance	Performance	Theory	Kow (2004:229)
Turnaround has occurred when the firm recovers adequately to resume normal operations, often defined as having survived a threat to survival and regained sustained profitability.	Survived decline Normal operations Profitability	Recovery to normal operations	Theory	Lohrke *et al.* (2004:65)
The actions taken to bring about a recovery in performance in a failing organisation where failure is defined as "existence threatening decline" in performance.	Actions for recovery in performance	Action to recover from decline	Theory	Walshe *et al*. (2004:201)

Table 1 contains the main definitions found in the literature; due to space constraints, definitions such as those using bankruptcy as criterion were not repeated ad infinitum. Three main categories were distinguishable, suggesting that researchers use definitions as required for specific problems. There were more definitions for failure than for decline and turnaround, a possible reason being the large sub-domain of prediction research reported in the literature. The table also shows the key constructs of the definitions used and the apparent focus of the specific authors.

Table 1 reports many different terminologies within definitions, depending on the choice of the authors reporting it. Liao (2004:134) confirms that in general many different terms are related to business failure, such as closures, exit, dissolution, discontinuance, insolvency, organisational mortality, bankruptcy and organisational failure. It was therefore deemed necessary to identify and list the different criteria for the definitions, as they make up the key constructs required to propose the universal definitions. The key criteria are reported in Table 2.

Table 2: Core criteria that distinguish between the definitions for decline, failure and turnaround

Construct	**Criteria**	**Supporting Reference**
Decline	*Worsening performance criterion* - ROI decline for two consecutive years. Average pre-tax ROI of less than 10% for the same two consecutive years.	Chowdhury & Lang (1993:11)
	The performance decline must be *independent* of the performance of the industry in which they operated.	
	Value destruction criterion - Loss of company value and changing from being profitable.	Probst & Raisch (2005:91)
	Distress criterion - Accumulation of debt that seriously threatens survival. Changing market leadership position towards becoming unprofitable and becoming a player only.	
	Decreasing internal resource munificence criterion – over time in both financial and human resources.	D'Aveni (1989:578)
	Direction criterion – Changing from good to bad performance.	
Failure	*Discontinuance criterion* – includes exit or closure for any reason, excluding deliberate exits for alternative motives.	Liao (2004:134).
	Bankruptcy criterion – occurs when the firm is deemed to be legally bankrupt or has ceased operation with resulting losses to creditors.	
	Bankruptcy, to include sudden, voluntary, strategic, accidental, and liquidity bankruptcy as types of this criterion.	Balcaen & Ooghe (2005:11)
	Loss-cutting criterion – where firms are disposed of with a loss to avoid further losses.	Liao (2004:134)
	Loss-cutting appears similar to exiting at threshold performance.	Gimeno *et al*. (1997:750)
	Earning criterion – a firm is viewed as a failure if it is not earning an adequate return on invested capital, which is significantly and continually below prevailing rates on similar investments.	Liao (2004:134)

Table 2 continues

	There is a *shifting of resource application* from the ceased operation to a more profitable opportunity.	Fredland & Morris (1976:7)
	Shareholder loss criterion – whether the loss applies to creditors, owners or any other relevant constituency (this appears as an extension of the loss criterion).	Keasy & Watson (1991:89) and Lussier (1995:9)
Turnaround	*Recovery/reversal criterion* – from decline in performance or a life-threatening situation towards acceptable performance	Barker & Duhaime (1997:18)
	Resumption of normal operations criterion – such as sustained profitability.	Lorkhe *et al*. (2004:65)
	Reorientation criterion – Whether it is through strategic, structure, control system or power distribution interventions as determined by the specificity of the situation.	

The criteria from Table 2 guided the research towards constructing definitions for both decline and failure. On the basis of Tables 1and 2, it is possible to propose at least two main definitions for universal use by entrepreneurs and researchers: These are:

Decline – *A venture is in decline when its performance worsens (decreasing resource slack) over consecutive periods and it experiences distress in continuing operations. Decline is a natural precursor in the process to failure.*

Failure – *A venture fails when it involuntarily becomes unable to attract new debt or equity funding to reverse decline; consequently, it cannot continue to operate under the current ownership and management. Failure is the endpoint at discontinuance (bankruptcy) and when it is reached, operations cease and judicial proceedings take effect.*

Key to the proposed definitions for decline and failure are distinctly different manifestations, namely:

Decline implies operating under distress which, if the causes are corrected, leads to continued operation, and if not corrected, will lead to eventual failure. Associated terms include underperforming firms, “living dead” firms, lingering firms, “failure avoidance” firms and “persistent technical insolvent” firms.

Intervention through alternative management and financial injection could keep a declining venture operating, albeit not in its current form and depending on the suddenness and severity of the distress (crisis).

Decline has categories of severity that can be described as underperformance, decline, distress and crisis as a slide towards the point of failure (Pretorius, 2004:90). These categories are determined by the degree of severity, which generally depends on environmental munificence (capacity to support growth) and dynamism (variability in key external factors), strategic alignment (adapting), and available resource slack (Lohrke, Bedeian & Palmer, 2004:64).

It is acknowledged that in decline, failure could result from a single shock event, such as losing a major account or environmental disaster, although this applies in a minority of cases.

Failure connotes finality about the inability to operate any further.

This study distinguishes decline and failure from “closure”, concurring with Fredland and Morris (1976:7); Stokes and Blackburn (2002:18) and Bates (2005:343), who postulate that failure and closure are not synonymous, as many ventures close while their owners report them as successful at the time of closure, or for alternative motives.

Similarly voluntary, strategic, and accidental bankruptcy (Balcaen & Ooghe, 2005:11) should be appraised differently from failure as defined in this text, where failure is associated with involuntary circumstances.

The reports of D'Aveni (1989), Lorange and Nelson (1987), Weitzel and Jonsson (1991), Pretorius and Holtzhauzen (2008) and Pretorius (2008a) support the differentiation of decline and failure. Synthesising the two definitions of decline and failure confirms their heterogeneity despite their interrelatedness. A third definition is proposed for turnaround (rescue) to support the definitions for decline and failure. It further serves as a measure of differentiation between them. The proposed definition is:

Turnaround – *A venture has been turned around when it has recovered from a "decline that threatened its existence" to resume normal operations and achieve performance acceptable to its stakeholders (constituents) through reorientation of positioning, strategy, structure, control systems and power distribution. Return to positive cash flow is associated with achievement of "normal operations".*

The turnaround definition implies that a declining firm can be turned around, while a firm that has failed cannot. Judicial actions are often associated with failed firms but less often with those in decline and very small ventures, which enter and exit informally. While it is true that decline and failure are often used interchangeably, it is valuable to distinguish between them, as this may influence the strategies that will be pursued for each. Their strong interrelationship is also obvious; in the next section both terms are explored and the proposed definitions confirmed.

Discussions, observations and conclusions

Financial prediction models depend heavily on data integrity, while they mainly use bankruptcy as the criterion of failure. A lack of definitions of decline and failure is not uncommon in the research articles used as data for these studies. Moss-Kanter (2003) reports on turnaround and decline by describing cases and scenarios rather than stating any formal definitions, thereby suggesting that readers can form their own pictures of what the key terms entail. In the same way, Raina, Chanda, Metha and Maheshwari (2003) immediately direct attention to the causes of decline, without giving a formal definition. Often failure is also the secondary focus of research papers, while the primary focus is on prediction models, causes, signs, conditions or effects of failure rather than failure itself. This approach confirms Shepherd's (2005) postulation of variation in the understanding of the failure phenomenon. Consequently, this article has attempted to improve clarity and congruence of definition.

A second contributing factor to variation in definition is that different researchers formulate definitions to suit their specific research problem. While it is acceptable to do so, the practice means that results are not easily and meaningfully comparable unless exactly similar methodologies are followed. Examples include cases where failure has been equated with non-performance, unsuccessful closures (Bates, 2005); and not demonstrating performance (Kow, 2004:229). Finding a definition for failure thus contributes to better comparability of various results.

Defining decline separately adds an additional dimension as it eliminates previous confusion to some extent. Researchers who attempt to predict forthcoming failure have shown remarkable homogeneity in their definition, as they use bankruptcy and insolvency as the principal measurement criteria. Prediction is usually based on financial ratios, which are measurable, which is probably the reason for the use of bankruptcy as criterion. Few works on non-financial prediction were found during this research, probably because of the difficulty of measuring the relevant variables used for prediction. Those who predict failure do so using data from the period of decline that precedes the failure, which is subject to decision-making and interventions of turnaround attempts that probably distort the figures used in any case.

Finally, searching for articles on failure-related subjects reveals an apparent lack of recent failure literature, especially from the late 1990s. Since the new millennium, however, some new research findings have been reported, though they have not flooded the literature.

On the basis of the definitional approach to understanding failure, one can conclude that decline precedes failure, which is the end state of deteriorating performance. Turnaround focuses on signs and causes of decline, while learning from failure depends on the post-mortem approach. While one can learn from both, the turning around of ventures during decline has more general value for both entrepreneurs and the economy as a whole.

Contribution of the research to entrepreneurship

What set out as a study in the field of entrepreneurship ended in the heart of the business management domain, covering more than failure and as such including both decline and turnaround. This confirms the importance to entrepreneurship development of better knowledge of failure and shows that the origins and reach of decline and failure are extensive. As with the grounded theory research approach, this study proved a successful application of the research method of setting out on a course whose destination is not clear on departure.

Developed on the basis of grounded theory principles (Corbin & Strauss, 1990:18), two key definitions were arrived at in this study: decline and failure. They should be viewed as constructs that are differentiated by the conditions, context, actions/interactions, directional movement and consequences determined by the configuration of relevant variables at the time.

Limitations of this research

Limitations of one study serve as challenges for the next.

Definitions per se suggest guidelines for classification of variables. Classification requires homogeneity within categories and heterogeneity between categories to allow for generalisation. The definitions show a clear distinction between decline and failure, with the turnaround definition directing the categorisation process.

The literature acknowledges the complexity of the failure phenomenon. Thus, the definitional approach can only be the first step – a crucial first step – in the process of mapping the territory for venture failure research. Defining the phenomena does not explain the constructs that are involved when they do arise, nor do definitions identify the governing principles to be considered when decline and failure take place.

A final limitation was probably the exclusion of some works by delineating the research as reviewing the scientific literature, thus excluding some sources. However, those excluded were mostly popular how-to-do-it books that are not necessarily driven by the scientific research focus required for this study, and conference proceedings, which normally end up as refereed papers in any case.

Future Research

This study identified the criteria that distinguish business decline from failure and suggested a platform for understanding a previously ill-defined phenomenon. Extension of this research is required, firstly in the direction of classification of critical failure variables and secondly to ascertain the governing principles of the failure domain. It is hoped that scholars will find the proposed definitions useful to guide research, while entrepreneurs will be assisted in choosing the relevant strategies after quantifying their specific contexts.

Some of the findings may still appear vague and, to some, of little moment, but nevertheless the researcher found this an enriching (yet humbling) experience. It contributes to the body of knowledge by proposing a framework of thinking about failure. If it leads to discussion or disagreement it will have served its purpose well. Other researchers are specifically invited to critique this review and challenged to assess the proposed definitions.

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