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**Accounting for the Transitions after Entrepreneurial Business Failure: An Emerging  
Market Perspective**

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## **Abstract**

This study builds on prior scholarly works on institutions and entrepreneurship by examining the process of transitions and institutional obstacles that force serial entrepreneurs' shift to operate in the formal or informal sector after entrepreneurial business failures. Using insights from 32 serial entrepreneurs in Ghana, a framework was developed and utilized to explicate how the pull and push motivations for the transition into or persisting with formality or informality after business failure unfolds over time. Our analysis sheds light on the processes and effects of the motivations on the persistently high level of entrepreneurial activities in the informal sector for many emerging economies.

**Keywords:** Africa; development; serial entrepreneurs; business failures; failures; Ghana.

## INTRODUCTION

Society has historically celebrated stories of highly successful entrepreneurs (Sandage, 2005; Mellahi and Wilkinson, 2004). Columns of trade and industrial magazines are often devoted to their achievements and successes, often attributed to superior intuition and leadership style. Less apparent, however, are stories of failed ventures of entrepreneurs especially in emerging market context (Amankwah-Amoah, Boso and Antwi-Agyei, 2016; Rhoads, 2016; Schwarz, Watson, and Callan, 2011). A plethora of scholarly works have demonstrated that many entrepreneurs experience failures before successful re-entry into entrepreneurship (Hsu, Shinnar, Powell and Betty, 2017a; Hsu, Wiklund and Cotton, 2017b). Although transition from failed venture to new venture formation is encouraged by public policy makers and governments (European Commission, 2011), much of the current scholarly discourse around the issue has circumvented the motives and dynamics of transitions back into entrepreneurship after business failures. Serial entrepreneurs may continue to operate in the same mode (i.e. formal or informal) or shift from formal to informal sector and vice versa. Informal institutions are created and operated by “socially shared rules, usually unwritten, that are created, communicated, and enforced outside officially sanctioned channels” (Helmke and Levitsky, 2006, p. 5), whereas formal institutions include legal and political systems, government regulations and rules (Peng, 2002).

Given that a legal status offers the “governmental stamp of approval” (Assenova and Sorenson, 2017), this is an incentive for failed entrepreneurs to re-enter the formal sector as formal status can offer legitimacy and allow entrepreneurs to attract investors and finance. On the other hand, by opting out of the legal boundaries, entrepreneurs are able to sidestep bureaucratic barriers and eliminate the cost of complying with numerous government rules and regulations which can constrain and curtail formal organizations (Debrah, 2007; Loayza, Oviedo and Servén, 2005; Rauch, 1991). Around 50% of economic activity in the developing world is in the informal sector

(McGahan, 2012). Furthermore, two-thirds of jobs in developing countries are in the informal sector (The Economist, 2016).

In spite of these two compelling motivations and options for failed entrepreneurs, we lack a solid understanding as to the process through which entrepreneurs gravitate towards the formal or informal sector after business failure. Indeed, “failure is undertheorized in organizational studies in favor of studying organizational change and success” (Schwarz Watson and Callan., 2011, p. 312). Although much of the existing research on entrepreneurship has explored firms in the formal setting with clear rules of law and a stronger degree of enforcement (Assenova and Sorenson, 2017; Webb, Ireland and Ketchen, 2014), there is also a need to examine whether business failure experience actually fosters new learning and encourages entrepreneurs to shift from prior status of the failed venture (e.g. from informal to formal status and vice versa). This is particularly important given that many organizations in the developing world grow and evolve away from the informal economy. Many of the contemporary industrial policy debates such as the role of government in promoting manufacturing and protecting of local industries are well noted in the literature (Andreoni and Chang, 2018; Andreoni, Chang and Scazzieri, 2018; Andreoni, Frattini and Prodi, 2017) and can be resolved by creating policy frameworks that facilitate learning from the past and failures. The main aim of this paper is to examine the process of transitions and institutional obstacles that force serial entrepreneurs shift to operate in the formal or informal sector after entrepreneurial business failures.

This paper advances business failure, innovation and entrepreneurship literature in several ways. First, although the reasons why and how some entrepreneurs are able to bounce back after business failure is of interest to entrepreneurship scholars (Hayward, Forster, Sarasvathy and Fredrickson, 2010), research in the area has paid limited attention to the re-entry route (i.e. formal or informal sector) for bouncing back. Accordingly, the paper contributes to the literature by

developing a framework to capture the pull and push motivations as well as the different re-entry routes. In addition, in spite of the burgeoning body of research on business failure (Ucbasaran, Shepherd Lockett and Lyon, 2013; Zhang, Amankwah-Amoah and Beaverstock, 2019) and entrepreneurs' transition from informal to formal markets (Sutter, Webb, Kistruck, Ketchen and Ireland, 2017), this issue of transition after business failure has thus far received scant scholarly attention. By conceptualizing entrepreneurs' routes for bouncing back after business failure, our study deepens our understanding of how different individuals' motivations and experiences can lead to successive entrepreneurial engagement. Moreover, although there is a body of research on entrepreneurship in both formal and informal economies (Webb, Bruton, Tihanyi and Ireland, 2013; Webb, Tihanyi, Ireland and Sirmon, 2009), much of the existing research has focused on firms in developed economies. Thus, the paper contributes to the theoretical understanding of serial entrepreneurship (Westhead, Ucbasaran and Wright, 2005; Westhead and Wright, 1998) by using insights from a developing economy to shed light on successive entrepreneurial engagement.

The rest of the article proceeds as follows. First, reviews of the literature on entrepreneurial business failure, and formal and informal economies are presented. We then set out the research setting and our approaches to data collection and analysis. The penultimate section articulates the findings on how the different serial entrepreneurs gravitate towards formal or informal sectors. After setting out the findings, we outline the implications of the study.

## **THEORETICAL PERSPECTIVES: ENTREPRENEURIAL BUSINESS FAILURE AND INSTITUTIONS**

The past two decades can be regarded as the “Golden Age” of business failure research with burgeoning streams of scholarly works on the causes and consequences of failure (e.g. Amankwah-Amoah and Wang, 2019a; Mellahi and Wilkinson, 2004; Shepherd, 2003). Since the

turn of the twenty-first century, business failure has emerged as one of the pivotal issues in entrepreneurship research (DeTienne, McKelvie and Chandler, 2015). By entrepreneurial business failure, we are referring to situations where inability to mobilize prerequisite expertise and resources to tackle old and emerging threats culminates in the collapse of an entrepreneurial venture (Zhang et al., 2019). Failure often stems from misalignment of the organization to external changes leading to depleting resources and eventual collapse, whereas exit may stem from a decision to close the business irrespective of the financial circumstances. This means financially stable or profitable businesses can be closed down by retirement of the owners (Watson and Everett, 1993). Past studies indicate that lack of market knowledge and prior experience (Schaeffer, 2006), as well as overconfidence (Hayward, Shepherd and Griffin, 2006) can create the conditions leading to decision errors, strategic misalignment, and business failure.

Another line of research has demonstrated that external factors such as market liberalization and the accompanying rapid influx of new firms can create conditions for increased mortality among new entrants as well as incumbents (Knott and Posen, 2005; Silverman, Nickerson and Freeman, 1997). Prior scholarly works have demonstrated that organizations teetering on the brink of collapse also exhibit characteristics such as depletion of financial resources through waste and mismanagement (Mellahi and Wilkinson, 2004), and human capital depletion through personnel mobility and jumping ship (Amankwah-Amoah, 2018a; Jiang, Cannella, Xia and Semadeni, 2017).

Recent contributions to this line of research have highlighted that after venture failure, the options available to the failed entrepreneurs include becoming serial entrepreneurs (Westhead, Ucbasaran and Wright, 2005), opting out of entrepreneurship (Hsu et al., 2017a), and working for other firms. Previous research has noted that some former entrepreneurs work temporarily for other firms before starting another venture to help them develop “bounceability” – the ability to

mobilize new and old resources, knowledge, lessons and expertise to launch a new venture (Hsu, Wiklund and Cotton, 2017b; Westhead and Wright, 1998). The transition from failed venture to another tends to differ and is punctuated by a period of deliberation shaped by personal and environmental factors (see Hessels, Grilo, Thurik and van der Zwan, 2011).

Prior scholarly works have emphasized that to learn from business failure, organizations need to develop effective mechanisms to develop knowledge and transfer knowledge about failure as entrepreneurs' transition from one failed venture to new venture formations (see Amankwah-Amoah, 2016; Amankwah-Amoah and Wang, 2019a, 2019b; Cope, 2011; Zhang et al., 2019). Besides the direct effect of learning from failure, some studies indicate that the mere possession of knowledge about business failure is unlikely to be translated into potentially valuable knowledge unless one recognizes the context-specific effects of lessons from failure (Amankwah-Amoah, 2016). A fundamental thesis of entrepreneurial business failure is that some individuals learn from failure whilst others move on, learning little or nothing from their prior experience (Cope, 2011; Zhang et al., 2019). Serial entrepreneurs who fail to make use of available information or prior experience in establishing new ventures can create space for re-emergence of prior errors and mistakes (Amankwah-Amoah, 2018b). In addition, prior experience of business failure can actually be an asset when seeking venture capitalists (Landier, 2004). Such investors actually view prior business failure favorably, thereby incentivizing individuals with prior business failure to re-enter entrepreneurship (McGrath, 2011). Indeed, they may be reluctant to invest in a new venture "if the founder has never undergone failure" (McGrath, 2011, p. 79).

### **Formal and Informal Institutions**

According to North (1990, p. 3), institutions are the "rules of the game in a society" that influences individuals and firms' activities and actions. There is an accumulated body of research in the strategy and international business domains that has demonstrated that institutions

encompass both formal and informal components (Amankwah-Amoah and Wang, 2019; Peng, 2002; Julian and Ofori-Dankwa, 2013; Ofori-Dankwa and Julian, 2013). By informal economy, we are referring to entrepreneurial activities carried out by individuals whose businesses are “unregistered or otherwise untracked and thus unregulated” (McGahan, 2012, p. 12). A growing body of research indicates that one of the unique features of informal firms is that they perform the same activities and functions as firms in the formal sector, but they do so under the radar of government and formal institutions (Assenova and Sorenson, 2017). Thus, the informal market is where economic exchange occurs outside of formal regulations and infrastructures (Webb, Tihanyi, Ireland and Sirmon, 2009).

In the informal sector, economic activities are unofficially conducted by unregistered firms (LaPorta and Schleifer, 2008). Besides the lack of legitimacy, prior research points out that unregistered start-ups can deprive the entrepreneurs of access to scarce resources and increase the risk of subsequent business failure (Williams, Martinez-Perez and Kedir, 2017). The informal entrepreneurs can actually provide legal goods and services to society at large. Nevertheless, government infrastructure that supports firms’ activities such as quality roads and local education systems often do not require firms to be registered to accrue the benefits and thereby encourage informality (Assenova and Sorenson, 2017; Maloney, 2004). Indeed, lack of confidence in government and government institutions can actually undermine the legitimacy conferred on formal organizations (Assenova and Sorenson, 2017). Although firms in the formal sector generally outperform those in the informal sector (Assenova and Sorenson, 2017), the effects might be universal given that some firms in the informal sector can thrive and outwit their counterparts.

Historically, the government has perceived the informal economy as a barrier to the development of the formal economy, however, there are some indications that it may offer a viable path to

economic and entrepreneurial development (Debrah, 2007). Today, bureaucratic obstacles and heavy regulatory burdens remain a hindrance to entrepreneurial development. One strand of scholarly works has indicated that corruption remains a feature in both developed and developing economies, which can curtail or shape the nature of entrepreneurial activities (Tonoyan, Strohmeyer, Habib and Perlitz, 2010). Some scholars have suggested that weak formal institutions and rampant corruption reduces confidence in entrepreneurial development (Tonoyan et al., 2010).

Given the prevalence of corruption in many developing countries (Olken and Pande, 2012), entrepreneurs may be tempted to shift their activities from the formal to the informal sector in order to avoid the bureaucratic pitfalls and “red-tape”. Given the legal and social constraints on failed entrepreneurs re-entering entrepreneurship, many may therefore drift from previous business domains, e.g. from operating in the formal sector to operating outside the boundaries of the legal system in the informal sector (Assenova and Sorenson, 2017; Debrah, 2007). By opting for entrepreneurship in the formal or informal sector, we are referring to situations where the subsequent venture founded after a business failure may be a registered or unregistered business. Indeed, entrepreneurial engagement after business failure may be triggered out of necessity or opportunistic-seeking behavior.

## **RESEARCH DESIGN**

### **Research Setting**

In addition to being the first sub-Saharan African nation to attain independence from colonial rule, Ghana has long been recognized as “Africa’s golden gateway to a safe and stable investment destination” (Appiah-Adu, Okpattah and Amoako, 2018, pp. 86-104). Furthermore, Ghana remains one of the leading nations in Africa to have “championed democracy” on the continent and is centrally positioned within the Economic Community of West African States (ECOWAS)

with a market of over 250 million people (Appiah-Adu et al., 2018). These, in tandem with the adoption of market liberalization, have created an enabling environment for new business formation in the country (Amankwah-Amoah and Debrah, 2010). For many developing countries such as Ghana, small and medium enterprises (SMEs) have historically been ignored by policy makers and governments, and as such face considerably more barriers than those in the developed world (Appiah-Adu et al., 2018; Debrah, 2007; Hiatt and Sine, 2014). Ghana is one of the fastest developing and newly resource-rich nations in Africa. For decades, misguided government policies coupled with overemphasis on large businesses curtailed entrepreneurial development and growth of small business. It was hoped in the 1980s that the privatizations through the structural adjustment program would foster entrepreneurial development and energize a shift from reliance on the public sector to create jobs in the national economy towards private-sector job creation. By the turn of the 21st century, the vast majority of graduates and school dropouts continued to rely on or look up to the government to create jobs rather than venturing into entrepreneurship.

Recent years have seen an easing of constraining regulations and national policies (Ghanaweb, 2017a). Ghana has also pursued economic and development policies aimed at fostering economic and entrepreneurial development with some notable successes (Robson and Freel, 2008). In addition, many taxes on small businesses have also been withdrawn to create the condition that encourages individuals to start businesses and for existing entrepreneurs to flourish (Ghanaweb, 2017a). These recent initiatives are geared towards creating a friendly regulatory environment and infusing entrepreneurial risk-taking into local and regional economies. The shift from a highly bureaucratized nation in the 1990s to a more liberalized nation in the 21st century has paved the way for further entrepreneurial development. Having held the dream for high-paying government jobs for decades, many graduates and individuals have increasingly turned to entrepreneurship. Indeed, the government has come to regard the private sector as the primary

engine for economic growth. Largely due to weak legal enforcement mechanisms, the country has a large informal economy of unregistered businesses, thereby enabling informal entrepreneurs to evade regulation and avoid paying taxes. Entrepreneurs in the informal sector have often relied on the cash economy to do business. This means they are able to bypass the paying of taxes and monitoring of their activities. Although individuals engaged in business activities in the informal sector constitute the majority of the nation, many are left out of the tax bracket. Consequently, this has increased the tax burden on only 1.2 million of the 27 million population registered for tax purposes (Ghanaweb, 2017b). Indeed, the contribution of the informal sector to national revenue is less than 5% (Ghanaweb, 2017b). Besides the potential of harnessing SMEs as the backbone of economic development, the government can also create the platform for indigenous innovation. Historically, not all entrepreneurs operate by the same rules of the game with some adopting formal status (formal entrepreneurs) whilst others gravitate towards the informal sector (informal entrepreneurs).

## **Method**

Given that the wider issue of the effects of prior business failure on successive entrepreneurial engagement and activities remains a largely uncharted territory in entrepreneurship literature, we employed a qualitative approach to help provide a more in-depth and comprehensive analysis (Birkinshaw, Brannen and Tung, 2011; Eisenhardt, 1989; Eisenhardt and Graebner, 2007). Given the underdeveloped institutional setting in Ghana, we relied on mainly informal sources to identify formal and informal serial entrepreneurs, i.e. entrepreneurs with at least one prior experience of business failure. Regarding sampling strategies, besides the prior experience of failure, we also sought entrepreneurs operating in the regional capitals with at least one employee in the business. The study also utilized a snowballing approach and informal social networks such as local churches, business associations, family networks and local trade associations to help identify and

approach potential informants (Noy, 2008). In addition to these, we also offered a copy of the study's findings to potential informants as an incentive for their participation. This approach has been found to be particularly effective in encouraging participation (Bendapudi and Leone, 2002). Furthermore, all the informants were assured of anonymity, which helped to gain their confidence and willingness to share their stories around failure. After identifying and contacting the informants, interviews were arranged with those who were interested in sharing their stories with the researchers. In line with prior scholarly guidelines by Thompson, Locander and Pollio (1989) and Thompson and Haytko (1997), we created or insisted on a conducive environment where the informants felt at ease and comfortable in sharing these sensitive experiences. Each interview was conducted at location selected by the informants including their offices and other suitable locations.

We began the interviews by discussing the general background and experiences of the informants including personal interests, sports, age at time of founding and career. We enquired with questions on whether the prior status of the failed business was registered or unregistered and what the motivation was for opting for that status. We also elicited their views on why the prior businesses collapsed and their sources of attribution for the failure. Our next sets of questions were around the sources of learning from the experience of business failure. Another set of questions was around the pull and push factors for the formation of the new venture and status of the new venture (registered or unregistered). Here we also explore anticipated benefits of the status (i.e. registered or unregistered) and whether they were fully realized after the business formation. After conducting the original interviews, we followed up by enquiring about how the successive businesses were doing, how the global economy was impacting on their businesses, and to clarify ambiguities stemming from the initial interview data. The data on which this study is grounded were collected in different phases over time.

We began collecting the data from 2015 and ended in 2017. In all, we interviewed 32 serial entrepreneurs across different industrial settings with prior experience of failure to gain a more in-depth analysis of the failed and successive venture. We collected hundreds of newspaper cuttings and online material on the plight of SMEs in Africa and Ghana. In addition, we collected government reports and press releases on small businesses and the barriers/impediments faced by local entrepreneurs. Most of the interviews were conducted by the second and third authors. The interviews lasted between 30 minutes to an hour. The researchers also took extensive field notes during the interviews. Table 1 provides a detailed summary of the informants' details and nature of their operations.

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**Insert Table 1 about here**  
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### **Data analysis**

The interviews were audio recorded and transcribed. In line with prior scholarly suggestions, we followed the “24-hour rule” (Eisenhardt, 1989; Gioia and Thomas, 1996; Whyte, 1982) to “capitalize on the immediacy of the data” (Gioia and Thomas, 1996, p. 374). We transcribed text and field notes verbatim within 24 hours of each interview. The transcripts and field notes were coded to help identify key themes. The data analysis proceeded in multiple stages. Stage one: we wrote the informants' history encompassing reasons for business failure. We assembled archival data such as news reports, media reports and relevant online materials alongside the documents collected from the individuals and then began to construct a clear story line or narrative for each entrepreneur and how their venture started, reasons for collapse, their journey of re-entry into entrepreneurship and decisions around the status of the new businesses regarding whether to opt for the formal or informal sector. Stage two: we classified the entrepreneurs based on the reasons for the business failure, which allowed us to explore whether

the reasons had any connection to the method subsequently adopted. This enabled us to identify the different groups of entrepreneurs, sources of learning, and motives for shifts.

From the detailed field notes and transcripts from all the interviews, we developed a clear narrative for all the informants and issues identified. This “part-to-whole strategy” helped in developing a holistic understanding of each informant’s history as well as similarities across their stories (Thompson, Locander and Pollio, 1989). The stage-based approach also elucidated the shift from raw data to theoretical interpretations (Gioia, Corley and Hamilton, 2013). Based on this iterative process inherent in analyzing the data (Thompson and Haytko, 1997; Thompson et al., 1989), we observed unique patterns that captured individuals with prior experience of business failure who re-enter entrepreneurship through two routes: formal and informal sectors.

### **FINDINGS: ENTREPRENEURIAL BUSINESS FAILURE AS A PATHWAY TO FORMALITY AND INFORMALITY**

Based on the analysis, we uncovered a host of pull and push motivations for failed entrepreneurs maintaining prior status (unchanged from either registered or unregistered) or shift (from either registered or unregistered). There are two dimensions to our findings. First is pull and push motivations that underpin the transition into or persisting with formality after business failure. Second is the pull and push motivations that fortify shifting into or persisting with informality. Essentially, the transition period provides an opportunity for the individual to reflect and deduce sources of learning, marshal, and combine new resources for the basis of the new venture formation. As A29 asserted,

*“It was the first time a business had gone bad so it was quite a major setback, it was difficult to adjust... I think the period and the learning made me tolerant to certain things”.*

As A30 also added,

*“This new business - I started it close to six years after the previous one... It wasn’t something that followed immediately. I had a reasonable amount of time to prepare... I had a parcel of land so he encouraged me to explore it. So the first thing I did was to drill a borehole. I had the water tested and the quality was good and meets the standard. So I went into sachet water production since I had the resources”.*

Figure 1 presents the processes towards transitioning from informal to formal and vice versa. After entry and business failure, the entrepreneurs attempt to re-enter one of the two sectors.

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**Insert Figure 1 about here**  
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The different types of shifts after business failure are from informal to informal markets, informal to formal markets, formal to formal markets, and formal to informal markets. By combining these insights, we developed and utilized the four quadrants to structure our findings on the motive and rationale for shifts, as demonstrated in Figure 2. The figure provides a 2×2 matrix based on successive entrepreneurial engagement and transitions. We utilize the four-quadrant framework to delineate our findings on the motives for different entrepreneurs.

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**Insert Figure 2 about here**  
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### **Dimension 1: Shifting into or persisting with formality**

**Quadrant I: From formal to formal.** Even after business failure, some of the entrepreneurs still re-enter entrepreneurship via this route. The opportunities offered by formal status such as law and order, enforcement of rule of law, and protection for property such as land, buildings, contracts and patents mean that there are compelling motives for some. Our data

suggest that when the entrepreneurs identify clear sources of learning and do not attribute the prior business collapse to the firm's "formal status", they would re-engage using the same formal status. This is more so when they attribute the prior failure to lack of ability to mobilize resources or harsh economic situations at the time. Many sought to overcome expertise deficiencies and lack of knowledge revealed during the transition period after the collapse by adopting co-founding the new venture with a partner or mobilizing new expertise and resources prior to new venture formation. More importantly, the benefits of formal status and the desire to seek and increase legitimacy of the business, motivated them to adopt this mode. As A30 in the sachet water production noted,

*"It is a registered business. The registration was not based on the collapse of my first business but I thought it was something I should do. The water business is very sensitive and the food and drugs board are very hard on unregistered water producing companies... So the system actually forces you to register. It is a condition for producers."*

One entrepreneur in the exporting, importing and distribution sector captured these motives by noting:

*"Yes it was registered ... I think I was doing too much so I decided to team up with an old school mate to start the new business. He had travelled to the UK, France and other places in Africa so I needed his experiences to succeed ... I also needed a government license to buy the imports."* (A2)

In discussing the recovery process and transition, A29 noted the incentives and motivation for the formal status,

*“To be able to get the kind of recognition and prominence, you have to register the business with the government... I had a contract that was much more lucrative... When you register it, it (the business) becomes more prominent and the banks and other entities take you serious.” (A29)*

As seen above, these entrepreneurs re-entered into the formal sector due to the nature of their business which required some form of government licensing and approval in order to access resources and operate. Legitimacy of formal status also was a large motivation for persistence. It can also be deduced from A2's quote that the failed company's formal status did not act as a catalyst to failure and therefore a change of status to the informal sector was not needed. A2 also demonstrated the benefits of co-founding the new business to spread the risk and bring additional expertise on board to reduce the risk of another failure. Through the learning and transition period of eight months, this entrepreneur was able to identify the new sets of skills, knowledge and expertise that engender confidence for them to re-start another venture. Aside from the pragmatic reasons to remain in the formal sector, under conditions of uncertainty, some entrepreneurs will re-enter through formal status again as individuals tend to gravitate towards what they know best and resist some enticing alternatives. On this and related point one informant noted:

*“No, I didn't see it coming. It all started falling apart after my trip to Kumasi ... I wanted to show I could succeed using the same mode (formal).” (A5)*

Based on the above analysis, the following is proposed:

**Proposition 1:** *Serial entrepreneurs will persist with formal status after experience of failure out of necessity rather than as an obligation.*

**Quadrant II: From informal to formal.** Although some entrepreneurs transition from informal to formal markets with successive new ventures, our data indicate that this may stem from recognition of the benefits of having a formal status and learning from prior venture failure. Firms without formal status are often deprived access to finance, recourse to the law, and ability to secure loans on reasonable terms. As A32 concurred,

*“When the business failed, I had to learn and start again. I started the manufacturing business from home. It was doing well so my wife encouraged me to register. At the time, I also wanted to expand and needed banks and investors. Honestly, I do not think they will support me if the business was not registered.”*

Informality also creates conditions for illegality to occur where rival firms play outside the rules and use dark-side competitive tactics such as spreading misinformation and rumors as a means of gaining a competitive edge. By being seen as informal, customers and clients can deceive the firm knowing that the owner has little or no recourse to legal avenues to recoup their payments or money. These pushed some of the entrepreneurs to transition from the informal to formal sector. Legal status allows the firms to gain visibility and attract new customers because of the legitimacy rendered from their formal status. As A32 noted,

*“Yes the new business has been registered. This is necessary for trust, appeal, confidence in the public, customers and so on.”*

Some of the entrepreneurs shifted from unregistered failed businesses to registered (entrepreneurs A26 and A10) largely due to the industrial norms of the successive venture. The quotation below exemplifies the importance of strong institutional frameworks and government in encouraging entrepreneurs to seek to be in the formal sector. This point was echoed by another entrepreneur noting:

*“When we were developing the business plan, I felt that registering was important. At the time, we were looking to win local government contracts to supply catering services to government officials.” (A3)*

The above arguments are rooted in the following proposition:

**Proposition 2:** *Serial entrepreneurs will shift from informal to formal when the financial reward is higher.*

## **Dimension 2: Shifting into or persisting with informality**

**Quadrant III: From formal to informal.** Our data also suggest that institutional weaknesses serve as a “push factor” in forcing individuals to abandon their previous approach of operating in the formal sector. The deficient legal frameworks or weak legal enforcement environment in the country forced some of the entrepreneurs to explore circumventing the ill-functioning formal institutional environment. The perception of a weak institutional environment and failure of policy makers to strengthen the enforcement of the rule of law appears to encourage individuals to make this transition. While discussing the previous failure experiences, one entrepreneur (A7) asserted:

*“When [you] look around, you can't trust this government to enforce any rules ... I cannot put my business into the hands of corrupt politicians.”*

In the wake of high taxes on SMEs and the tendency of some bureaucrats to demand bribes as a prelude to performing their duties, informality has come to be seen as the only way to ensure success of the successive new venture. Another motive was the belief that opting for the informal sectors would improve their chances of success. The potential gains in terms of non-compliance of government rules and taxes may be enough to offset any potential benefits offered by formal

status. Informality might be a more viable route for failed entrepreneurs when the route of return to formal entrepreneurship is shut or sealed off.

Given the high costs of starting ventures in some sectors, some of the entrepreneurs (A7 and A15) started their catering business from home which required little overhead with employees paid on an hourly basis without fringe benefits and payments. The lower start-up costs associated with operating in the informal sector offers a route for stigmatized and cash-constrained serial entrepreneurs to re-enter entrepreneurship. Although entrepreneurial activities in the informal sector can be viewed as an obstacle to economic development (Rakowski, 1994), our data indicates that the stigmatization of entrepreneurial business failure and deprivation of financial credit may actually push serial entrepreneurs into the informal sector. Another entrepreneur attributed the decision to shift to the informal sector to the wider societal perceptions of business failures by noting that (A8):

*“In my opinion, people do not like failure here [Ghana] ... they do not want to loan you money or be associated with you.”*

Although unregistered enterprises often lack legitimacy (Williams, Martinez-Perez and Kedir, 2017), failed entrepreneurs deprived of access to financial credit would opt for this route before eventually transitioning to formal business. Our data indicates that in some cases where the entrepreneurs struggle to attract capital, they re-emerge after failure in the informal sector. Being able to start a new venture free from the burden and baggage of past businesses, they begin to repair their reputation within the wider society. By being able to hide revenues and pay workers in cash, entrepreneurs are able to reduce their costs and increase profit margins (The Economist, 2016). Even prior to business failure many of the entrepreneurs faced the problem of limited access to capital. This was exacerbated after the business failure which devalued their operation's

experiences, skills, and knowledge in the eye of local investors, including family members. In recounting the experience and its effects, one serial entrepreneur who operated the business from home asserted:

*“Yes, the elephant in the room was that people do not look kindly at this (business failure)... some think you are a failure.” (A15)*

Although some scholars have suggested that entrepreneurship is a career choice (Manso, 2016), often the choice can be limited or curtailed by social factors such as prior business failure and societal stigmatization of failure. Although in much of the developed world the labels and associated stigma with business failure have decreased to an extent, it remains powerfully pejorative in many developing countries where failure is seen as a personal liability. The word “failure” can be construed as a “verbal weapon”, which can be used to deprive such individuals’ access to finance and resources to start another venture. Given that failure can devalue the human capital of entrepreneurs, the allure of operating in the informal sector is enhanced in society where failure is highly stigmatized. This leads us to the following proposition:

**Proposition 3:** *Serial entrepreneurs will shift from formal sector to informal when failure is highly stigmatized in the wider society.*

**Quadrant IV: From informal to informal.** Some entrepreneurs are motivated to stay with informal status, bypassing all formal channels because they were able to benefit from low overhead costs in the new informal sector. The data analysis revealed that higher taxes and numerous requirements for business registration have prevented some entrepreneurs from moving out of the informal sector to the formal sector. Although being seen as non-registered status conveys a lack of legitimacy, it provides such entrepreneurial new ventures with the opportunity to sidestep regulatory compliance costs of registration and government bureaucracy which helps to

improve the competitiveness of such organizations (Williams et al., 2017). As one entrepreneur observed (A9):

*“Let me tell you how it works. I can register with the local official and pay all the taxes or stay this way and pay some taxes but not all ... this is what I know.”*

Following failure, some individuals are pushed prematurely into entrepreneurship due to financial strains of the failure and inability to maintain the subsistence out of new venture formation. By moving from earner to low or non-wage earner stemming from the business failure, many are pushed into entrepreneurship. The financial hardship and pressure actually push some of the entrepreneurs to re-enter entrepreneurship. One interviewee noted:

*“We kept hoping that things would turnaround ... in the end, there was no real option.”* (A9)

By bypassing the cost of registration and regulatory conformity, the entrepreneurs are able to deploy their scarce resources to source products and deliver lower prices to customers. Historically, unregistered firms also have their expansionary potential curtailed due to lack of legality and legitimacy (Williams et al., 2017). Although the workers in the informal sector are often lack job security and stable income, informal entrepreneurship may represent the only viable means from which they can earn income. For some, growing tax burdens, corruption, and risk of coming out of the shadows motivated them to maintain their operations in the informal sector. There was also a risk that they could be forced to pay back-taxes for the prior collapsed business.

Given these constraints, entrepreneurs opt to re-enter the informal sector as the route to entrepreneurship. In addition, the poorly developed and lack of effective enforcements of laws and regulations in many emerging economies (Bruton, Fried and Minimart, 2005) often means that many venture capitalists back away from entrepreneurs without legitimacy and track record of

success. This disproportionately affects those with a failure track record, thereby hampering their ability to gain access to finance to re-enter entrepreneurship and transition from the informal to formal sector. Based on these arguments, the following proposition is offered:

**Proposition 4:** *Previous experience of informality by entrepreneurs will motivate them to select informality when it is less expensive (both in terms of money and regulatory burden) than formality.*

## **GENERAL DISCUSSION AND IMPLICATIONS**

The purpose of the present research was to examine the transitional path of failed entrepreneurs to re-enter entrepreneurship. Our analysis uncovered two dimensions to successive entrepreneurial engagement after previous business failure, i.e. shifting into or persisting with informality or formality. Based on the analysis of serial entrepreneurs in a developing economy, a four-quadrant framework was developed which captures the different types of shifts after business failures including from informal to informal, informal to formal, formal to formal, and formal to informal sectors. In addition, our findings have shown that the prevalence of corruption has forced some entrepreneurs to gravitate towards the informal sector. We uncovered a host of pull and push factors that manifest and determine the shift for the four quadrants of successive entrepreneurial engagement after business failure. These broadly reflect the effects of individual level and institutional constraints on decisions of entrepreneurs. The study also demonstrated how desire to secure government contracts and customers, and address deprivation of financial credit push serial entrepreneurs to shift mode from their previously status (informal sector) for the failed business to registered status for the successive venture. Thus, the findings attest to the theoretical contention that business failure can alter individuals' perspective and, in some cases, drive them to the informal sector or "dark side" of entrepreneurship.

## **Contributions to Theory and Practice**

The study makes several valuable contributions to theory and practice. From a theoretical standpoint, our study deviates from much of the existing literature on business failure (Amankwah-Amoah et al., 2018; Mellahi and Wilkinson, 2004; Shepherd, 2003; Zhang et al., 2019) by developing a framework that captures the pull and push factors that motivate individuals to re-enter entrepreneurship after prior venture failure. Accordingly, our findings reinforce the theoretical contentions that resources to back fresh-start programs are essential in destigmatizing failure and equipping individuals to re-engage with entrepreneurship. In addition, although there has been a flourishing stream of research on different aspects of business failure ranging from human capital flows to learning from failure (Amankwah-Amoah, 2018a; Cope, 2011; Desai, 2010), it remains unclear as to why some entrepreneurs transition from one failed venture to another whilst others opt out of entrepreneurship after one or more venture failure. In this regard, we deepen our understanding of the subject by bringing together the current disjointed body of work on post-business failure effects to elucidate the underlining processes.

Notwithstanding the theoretical contributions, our findings also have important implications for aspiring and serial entrepreneurs. First, although many start-ups in the developing world are unregistered (Assenova and Sorenson, 2017; Autio and Fu, 2015), a transition from previously registered to unregistered can have a devastating consequence for governments and their revenue from business taxation. Given that as the informal economy gains stronger roots it becomes difficult to uproot, it might be worthwhile for the government to channel resources towards turning serial entrepreneurs away from the informal sector and incentivizing entry into the formal sector. There is a need to disentangle the notion of informal economy from criminal endeavors towards creating incentives for formality (AFDB, 2013; Debrah, 2007). A national tax

campaign would be useful in encouraging entrepreneurs in the informal sector to transition into the formal economy and meet their tax obligations willingly (Ghanaweb, 2017b).

In addition, because entrepreneurial business failure has become increasingly common, it is a strategic and practical imperative to explore the path to transition from one failed venture to another. Given that business failure often deprives many entrepreneurs of access to resources and financial markets, it is very likely that such individuals may spend a temporary short period of time as unregistered businesses before registering. By creating a path out of informality after business failure, government would help to improve working conditions for employees and ultimately reduce poverty. More so, given that entrepreneurial activities in the informal sector are viewed as an obstacle to economic development, there is a need for better access to financing for serial entrepreneurs, government services and resource mobilization towards de-stigmatization. These would help to create incentives for registration of new businesses. Moreover, there is a need for more entrepreneurs to view prior business failure as an opportunity to try again rather than become paralyzed by the experience. This means developing a notion that humans are changeable and failure can be turned into future success in the wider society. This also means devoting resources toward educating and showcasing examples of failed entrepreneurs that have re-emerged to help alter social perception towards business failure. This can provide a basis for mobilization of national resources towards self-improvement programmers and provide opportunities for re-entry after prior venture failure.

### **Limitations and future directions**

There are some limitations to the approaches adopted. A limitation of the analysis relates to the applicability of the conceptual framework to other different institutional environments. Given that empirical research on successive entrepreneurial engagement after business failures is

still in its infancy (Hessels et al., 2011), it might be worthwhile for future research to explore this in other or similar institutional environments. Second, the paper is based on a single country with a very small sample. This limits the generalizability of the analysis. Another possible area of worthwhile investigation is whether an individual's age, religion and gender may play a role in societal attributions of business failure. This is likely to affect an individual's ability to bounce back after business failure. It might be useful for future studies to compare the competitiveness of formal and informal entrepreneurs in the same industry. This might shed some light on whether formal entrepreneurs are hampered or helped by competition with informal entrepreneurs. It is hoped that this paper helps to foster new streams of research on this unique area.

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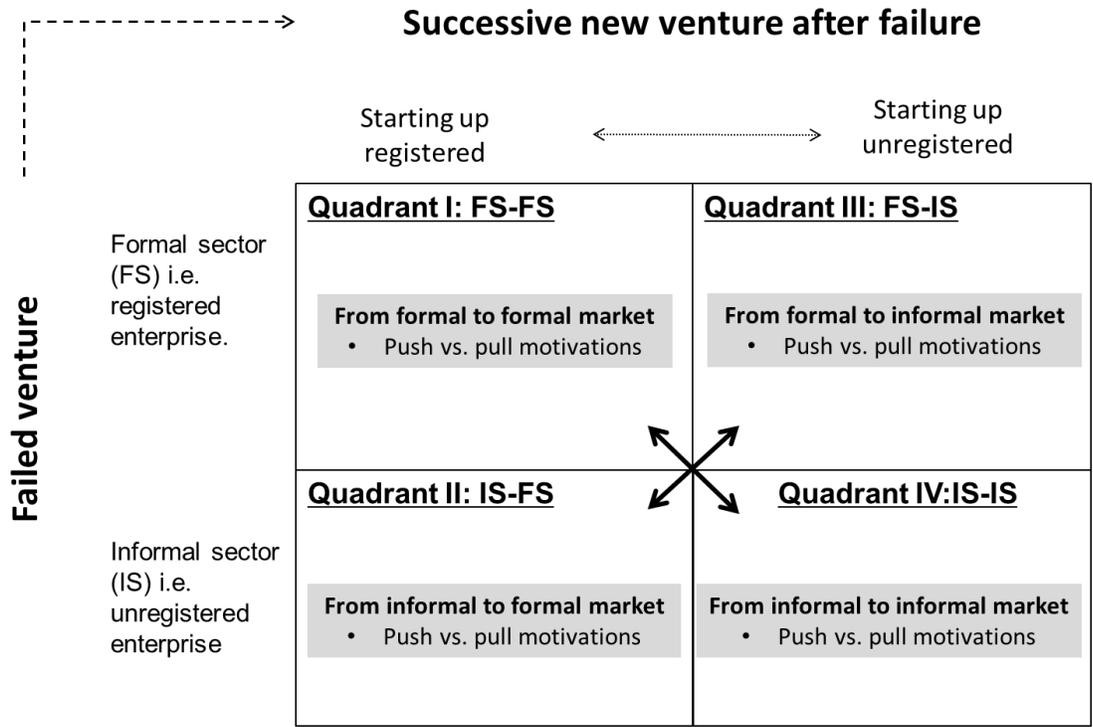
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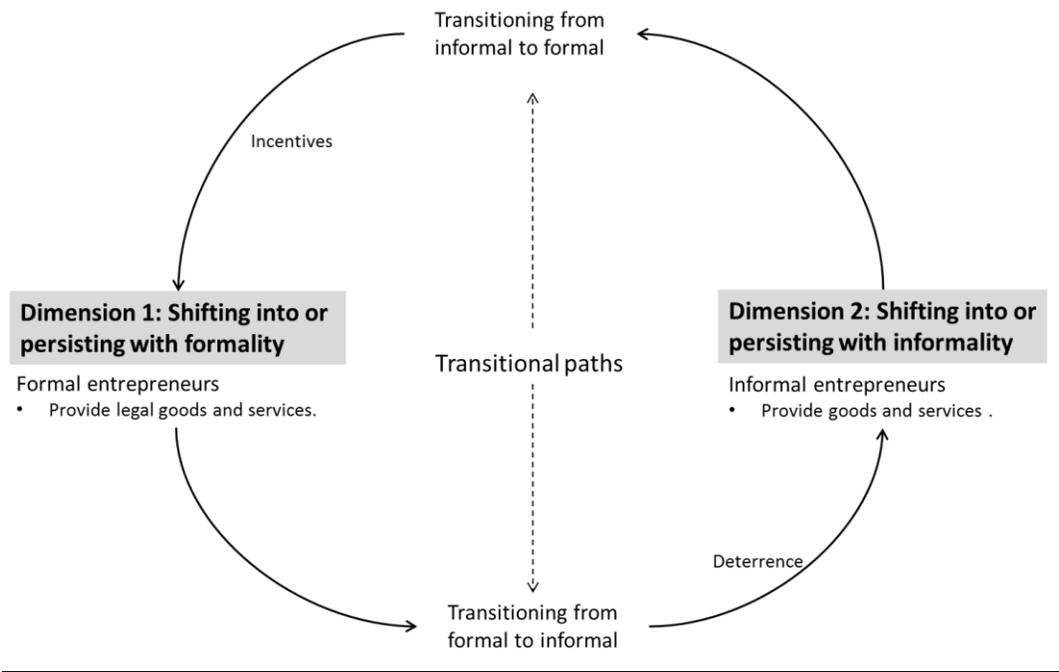
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**Figure 1: A four-cell typology of transitions after business failure**



**Figure 2: The transitioning processes**



**Table 1: Summary of informants' details and nature of the new businesses established**

Founding entrepreneurs	Industry of failed firm	Status of the failed business: (registered with government or unregistered )	Motive for registered or unregistered status	Timeframe (the period from exit to new business formation)	Background of new business/industry or sector/ nature of activities	Motive for registered or unregistered	Status of the new business: (registered with government or unregistered )
A1	Communications provider for house buyers and renters	Registered with government	Benefits from bank loans which require formal status	1 year	Established a web-based service for new companies	Benefits from government's new tax scheme	Registered with government
A2	Exporting, importing, and distribution	Registered with government	To obtain necessary licence to underpin the business	8 months.	Exporting, importing, and distribution	Formal status	To obtain licence
A3	Restaurant and night club	Unregistered	Not necessary at the time	4 years	Catering business	Formal status	To help secure government contract
A4	Catering services	Unregistered	Was able to benefit from formal status	1 year	Catering business	Registered	To help secure bank loans for future expansion
A5	Computer support services	Registered	Licence was needed to underpin the services. Influences of formal institutions such as codified laws and regulations	13 months	Computer support services	Registered	Personal perseverance and proof people wrong
A6	Transportation services for small firms	Unregistered	Operated the business from home	3 years	Transportation services for small firms	Registered	To tap benefits offered by formal status
A7	Hospitality business (catering services)	Formal (registered with government)	To provide services to local schools and a University	1 year	Hospitality business	Informal market	Rising cost, economic hardship and taxes
A8	Printing press	Formal (registered with government)	Semi-formal- paid some local taxes to operate	2 years	Established new retail shop	Formal	Acquire benefits of formal status.
A9	"Susu" business	Unregistered	"Susu" business is based on social network and family contacts rather than government certificate	2 years	Family owned nursery school	Registered	Nature of the business and government requirements for nursery school
A10	Local restaurant	Not registered	Operated the business from home	3 years	Established a drinking bar with provision store	Registered with district assembly	To comply with regulations
A11	Food processing	Incorporated with registrar generals	To attract new businesses and be seen as legitimate	2years	Yoghurt making	Unregistered	Wants to grow the business before registering
A12	Hospitality (catering services)	Registered with the government	To attract business from MMDA	1yr	Contract catering for weddings, parties, funerals etc.	Unregistered	Combines that with their permanent job
A13	Sale of electrical appliances	Registered with the municipal assembly	To comply with the law and play by the rules	2.5yrs	No new business because had a permanent job with Zoomlion	Undisclosed	N/A
A14	Office supply and stationery	Registered	To be able to supply to government agencies	7yrs	Unable to start a new business		N/A

A15	Hospitality (catering services)	Registered with the Ghana Tourist Board	To comply with Law	2yrs	Contract catering during Weddings, funerals etc.	Unregistered	Because operated from home and also not an everyday business
A16	Food processing	Registered with government	To comply with the Food and Drugs law	2yrs	Processing and sale of sachet water	Registered	To comply with Law
A17	Building and construction	Registered with all the government agents	To be able to win contract	4yrs	Small shop to sell assorted products	Registered	To satisfy the municipal assembly
A18	Sale of hair products	Unregistered	Sold from the house to students	3yrs	Food processing	In the process of registering with food and drugs authority	On experimental basis
A19	Sale of cosmetics	Unregistered	Sold to friends and people in their networks	1 yr.	Artificial hair	Not registered but will register	To friends and people in their networks
A20	Pastry services	Registered	To be able to supply to government agencies	2yrs	Fast food joints	Registered	Comply with law and to attract bank loans
A21	Mobile shop of assorted items	Not registered	Sold to friends and colleagues at Work	1yr	Stationery firm	Not registered	Operated from home
A22	Saw mills parts dealer	Not registered	Undisclosed	Under a year.		Undisclosed.	N/A.
A23	Management services	Registered	To get contract from government agencies	2yrs	Organized software training for accountancy students	Registered	To win confidence from the students
A24	Second hand clothes	Not registered	Moved from market to market	3yrs	Hardware shop	Incorporated	To attract business and loans
A25	Barbering shop	Registered with the municipal assembly	To avoid confrontation with the law	2yrs	Mobile money transfer	Registered	To comply with the requirement
A26	Contract catering	Not registered	Operated the business from home	3yrs	Established a local restaurant	Registered	To comply with the law
A27	Carpentry shop	Registered	To get contract from the government	4yrs	Established a saw mill	Registered	In line with law
A28	Building and construction	Registered	To get contracts from the municipal assembly	2yrs	Established a sachet water business	Registered with food and drugs board	Comply with Law
A29	Preschool	Registered	Legal requirement	3 yrs	lifestyle Events/Emporium	Registered	Benefits of legal status
A30	Small distributorship-distributing soft drinks	Registered	Demanded by partner and legal requirement	2.5yrs	Sachet water production	Registered	Benefits of legal status
A31	Specialized in sale of selling of software to law firms and filling stations.	Registered.	To obtain certificate and legitimize the business	10yrs	Import and export	Registered	To comply with the law
A31	A cleaning Company	Registered	Legal requirement	5 months	Cleaning firm	Not registered	Wants to build on more clients first
A32	Entertainment, clothing and food outlet	Unregistered	Not full time business	2yrs	Shoes manufacturing	Registered	Comply with law and to attract investors