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# The role of skill versus luck in new venture survival

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## Abstract

In our paper ‘New venture survival: A review and extension’ in the *International Journal of Management Reviews*, we synthesized more than five decades of entrepreneurship, management and sociology research on the reasons why some new ventures survive and others fail. Based on our review and analysis, we provided an up-to-date systematization of the literature and a framework that includes important extensions to Stinchcombe’s seminal work. Coad and Storey criticized our framework for basing venture outcome on skill—something that can be influenced by entrepreneurs and other stakeholders. In this paper, we argue that: (i) the distinction between survival and performance matters when thinking about the antecedents of these constructs; (ii) gambling is an incompatible analogy for entrepreneurship; and (iii) psychological processes cannot be ignored when studying new ventures’ survival. We also correct some points made by Coad and Storey about our findings. We encourage future studies on new venture survival to be cautious of adopting a view of venturing as a ‘game of chance’—which is, in our perspective, a potentially discouraging view for people pursuing entrepreneurship.

## INTRODUCTION

In our 2020 *International Journal of Management Reviews* paper entitled ‘New venture survival: A review and extension’ (Soto-Simeone et al., 2020), we built on Stinchcombe’s (1965) work and offered a comprehensive review of the different factors influencing new venture survival. We categorized these antecedents into a framework consisting of four categories:<sup>1</sup> (1) conditions characterizing new ventures’ environment; (2) attributes, structural characteristics and strategies of new ventures; (3) individual characteristics of founders and founding teams; and (4) inter- and intra-organizational relationships. We are

<sup>1</sup> Coad and Storey (2021) neglect this classification and postulate that ‘all four factors relate to characteristics of the owner(s): roles and tasks; time and effort; social relationship; links to shareholders’ (p. 2).

pleased to see that our paper quickly generated scholarly interest in entrepreneurship and management research, including works recently published in venues such as the *Academy of Management Journal* and *Entrepreneurship Theory and Practice*, and, indeed, the recent debate essay by Coad and Storey (2021) that we are responding to here.

Coad and Storey (2021) seem to appreciate our review, yet they criticize it for overlooking the role of chance and the insights offered by the ‘random school of thought’ in explaining new venture survival. They propose that ‘entrepreneurship is most productively seen through the lens of gambling’ (Coad & Storey, 2021, p. 3), thus modelling new venture performance—growth and survival—as a Gambler’s Ruin model. Coad and Storey (2021) then provide many interesting thoughts on how chance or luck might play a role in new venture performance. We want

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to emphasize that we do not disagree with this possibility. As a matter of fact, in our original analysis, we did not exclude studies evaluating the role of chance in new venture survival, nor did we limit our analysis to characteristics of the owner(s) alone. Thus, we did not exclude factors such as financial resources that Coad and Storey (2021) link to chance.<sup>2</sup> Overall, however, we disagree with modelling new venture survival as a random walk—an outcome of pure good or bad luck.

In this paper, we provide our view on the applicability of the ‘random school of thought’ in explaining new venture survival by concentrating on the following main areas: (1) the semantic use of the terms ‘survival’ and ‘performance’ in the context of new ventures; (2) the incompatibility of the gambling analogy with entrepreneurship; and (3) the influence of psychological processes in ventures’ survival. While discussing these points, we also clarify important aspects of our review that may have led to misunderstandings about the focus of our paper and provide additional insights on new venture survival that emerged after the publication of our review. We conclude by offering an alternative metaphor of the entrepreneur as a sailor rather than a gambler.

## WHY DID WE CHOOSE SURVIVAL RATHER THAN PERFORMANCE?

In their debate essay, Coad and Storey (2021) propose that ‘new venture performance is best explained by the gambling analogy’ (p. 1), noting that ‘[...] much of the empirical evidence on new venture performance—growth and survival—is in line with predictions from a Gambler’s Ruin model’ (p. 9). Before we turn our attention to the gambling analogy, it is important to note that Coad and Storey (2021) view performance as the general principle and subsume survival and/or growth under it without further elaboration. Although this approach is not incorrect, there are significant risks involved in using two very different constructs simultaneously, which may lead to comparing apples with oranges. Our review paper (Soto-Simeone et al., 2020) only concentrated on survival as one of the most basic measures of new venture performance that depends on a venture’s ability to continue its operations as a self-sustaining entity (Brush & Vanderwerf,

1992). We used survival as an absolute measure (i.e. dead or alive) and further differentiated between accounting-, market- and stakeholder-based views on the survival construct. However, we did not mix it with other performance metrics such as firm growth. Growth is a more relative measure that can follow numerous different interpretations and less clear links to performance, for example employee growth does not necessarily coincide with revenue growth in venture-backed firms (Damodaran, 1999; Josefy et al., 2017). We encourage scholars to be very careful with the distinction between constructs such as performance, growth and survival in an entrepreneurial environment. As such, while Coad and Storey (2021) interpret ‘growth as a random walk and survival as influenced by access to financial resources’ (Coad & Storey, 2021, p. 9), the relationship between growth and survival needs to be disassembled, because they are not the same thing.

We do not neglect the possibility of chance influencing firms’ growth and we acknowledge prior efforts that several researchers have made in this regard (e.g. Chen & Song, 2020; Coad et al., 2013; Daunfeldt & Elert, 2013; Dutta, 1994; Shyy, 1989; Wilcox, 1971, 1976). However, in our review, we did not include this stream of literature, because our work builds on Stinchcombe’s (1965) article and hence aims to stick to the language that he used to define the phenomenon of interest, its boundaries and scope. As such, we made the conscious decision to focus on the antecedents of new ventures’ survival and not on new ventures’ growth or new ventures’ performance in general. Although there are overlaps and interrelations between these concepts (Haeussler et al., 2019; Miller et al., 2013; Pajunen & Järvinen, 2018), we again want to emphasize the importance of distinguishing between them.

Given these arguments, we defined the criteria for our review to keep the focus on new venture *survival* and only included articles that specifically study new ventures and focus explicitly on survival and not performance (or other dimensions of it, such as growth). This means that we never actively excluded the role of chance from our review; our intention was simply to review the literature on new venture survival and not new venture growth or performance.<sup>3</sup> Given that complexities and nuances are easily missed when ‘survival and performance are assumed to be analogous’ (Josefy et al., 2017, p. 787; a point also made by Shaver, 2020; Wiklund & Shepherd, 2011; Zheng et al., 2015), Josefy et al. (2017) argue that a multidimensional conceptualization of survival presents difficulties.

<sup>2</sup> Financial resources as a factor affecting survival are mentioned in our framework under ‘Attributes, structural characteristics and strategies of new ventures themselves’, where we summarize the notion of ‘endowment’ (i.e. the quantity and quality of resources that organizations have; Hannan, 1998), which explores the link between financial resources and new venture survival—irrespective of how these financial resources were generated.

<sup>3</sup> In the process of writing this response, we ran an *ex-post* Web of Science (SSCI) search looking for articles that include the terms ‘new venture survival’ AND ‘chance’ in their titles and abstracts. No results emerged.

As a result, the authors recommend separating ‘survival and failure from performance and simply identify[ing] a firm’s continuation along a single dimension of survival’ (Josefy et al., 2017, p. 776) instead of mixing the constructs with financial performance or growth.

## THE ENTREPRENEUR: A GAMBLER?

Even though we recognize the valuable efforts of Coad and Storey (2021) to emphasize the importance of random processes as a ‘powerful influence on new venture survival’ (p. 2), the framework of our literature review, based on decades of research, leads us to the conclusion that new venture survival is affected by more than mere chance. Coad and Storey (2021, p. 3) themselves outline that survival is influenced by ‘access to and management of financial resources’—by this logic, the idea of ‘taking the entrepreneur out of entrepreneurship’ (Coad & Storey, 2021, p. 1) is moot: who is going to raise the financial resources and, even more important, who is going to manage them if not the entrepreneur? We refer to Coad et al. (2013) for a more elaborate discussion on this topic, but this does not answer these questions either; survival is simply attributed to the amount of resources obtained, but nothing is said about the acquisition or management of said resources. In our view, it does not matter whether or not the entrepreneur is rich. What matters is how well they are able to acquire and allocate these resources. Therefore, from our point of view, the idea of ‘taking the entrepreneur out of entrepreneurship’ (Coad & Storey, 2021, p. 1) is not only inadequate, but also downgrades the work of successful entrepreneurs. At worst, the idea may even discourage people from pursuing entrepreneurial careers (see also Derbyshire & Garnsey, 2014 or Van Witteloostuijn & Kolkman, 2019 for recent critiques on the assumption of random outcomes in entrepreneurship). Our reasoning is based on the following arguments.

First, taking the entrepreneur out of entrepreneurship would imply ignoring a long-standing stream of well-grounded and established research suggesting an inextricable link between entrepreneurs and their firms (e.g. Cardon et al., 2005; Carsrud & Johnson, 1989; Fauchart & Gruber, 2011; Gartner, 1989; Gimeno et al., 1997). We cannot ignore that entrepreneurs play a vital role in the emergence of organizations (Jenks, 1950; Kilby, 1971; Peterson, 1981; Van de Ven, 1980) and in ensuring their viability (Haeussler et al., 2019). Looking at entrepreneurs as gamblers disregards their very real influence and, as Gartner (1989, p. 64) puts it, separating the entrepreneur from the complex and intricate process that venture creation represents is equivalent to trying to tell the dancer from

the dance. While we do not neglect the possibility that some entrepreneurs might exhibit gambling behaviour as Coad and Storey (2021) propose, it is important to bear in mind that this is not generalizable across the board. Even the work by Spivack et al. (2014, p. 663) regarding entrepreneurship as a behavioural addiction, on which Coad and Storey (2021) base parts of their analogy, points out that ‘neither the intent of our study nor the implications of our study are germane to all entrepreneurs or all habitual entrepreneurs. Our focus is strictly on a small percentage of habitual entrepreneurs’.<sup>4</sup>

Several additional issues lead us to be critical of the comparison between entrepreneurs and gamblers. First, we maintain that gambling is a temporary and unsustainable entrepreneurial behaviour. Pathological gamblers are short-term oriented (i.e. they look for immediate satisfaction, or pleasure; Ledgerwood et al., 2020), and their perception of reality leads them to believe that a big win will come in the next (immediate) try (Wohl et al., 2005). Besides, there are other types of gamblers, such as poker players, for whom evidence suggests that skill plays a crucial role in their performance (Larkey et al., 1997; Levitt & Miles, 2014; Meinz et al., 2012; Siler, 2010). Entrepreneurs are long-term oriented; they are aware of the inter-temporality that the realization of their outcomes implies, making a trade-off between present and future benefits and thus being willing to wait to harvest results over time (Zeng & Ouyang, 2020). In this journey, they are permanently devoting efforts to ‘staying afloat’, and making conscious decisions that increase their chances of success in the long term (or minimize their bad luck; Liu & De Rond, 2016). The conditions of the lottery assumed by Coad and Storey (2021) do not consider time/temporality, while entrepreneurship is a long-term game where time matters. Plus, conditions of uncertainty characterizing entrepreneurship do not mean that an entrepreneur has no agency, control or ability to pursue, envision or even construct a desirable future. Entrepreneurs play a role in creating what unfolds, and their actions can affect the results favourably (Wood et al., 2021). Therefore, temporal considerations are an essential lens that entrepreneurs use to construct the future (Wood et al., 2021).

Second, we have our reservations regarding the straightforwardness of the analogies Coad and Storey (2021) present in Table 1 of their debate essay (characteristics of pathological gamblers applied to entrepreneurship). For instance, passion (Cardon et al., 2009) or resilience (Bulough et al., 2014) are more permanent feelings or traits; whereas gambling is a pathological condition that is likely to change if treated or intervened in (Ledgerwood et al.,

<sup>4</sup> Further evidence is presented in Spivack and McKelvie (2021).

2020; Wohl et al., 2005). Rather than a sign of irrationality, entrepreneurial re-entry may denote some individuals' resilience and persistence (Huggins & Thompson, 2015), as well as learning (Cope, 2011; Cope & Watts, 2000; Corbett, 2005; Shepherd & Kuratko, 2009) and a sense of accomplishment (Shir et al., 2018). Plus, in contrast to an addiction to gambling, addiction to entrepreneurship is not always detrimental. Entrepreneurs may be attracted by several non-monetary outcomes, such as autonomy, personal growth, satisfaction or other dimensions that contribute to entrepreneurs' well-being (Nikolaev et al., 2020; Ryff, 2019). In the same domain, Coad and Storey (2021) appear to parallel attention deficit hyperactivity disorder (ADHD), irrational entrepreneurial entry decisions made by individuals (p. 7) and pathological gambling. We believe that this parallel does not fully (or appropriately) capture the richness/complexity of the entrepreneurial process (or the entrepreneur's behaviour). While valuable contributions from scholars researching ADHD-related traits suggest that such traits make individuals well equipped for entrepreneurial activities (e.g. Stappers & Andries, 2021; Wiklund et al., 2017), they also point out that these individuals tend to give up easily when faced with obstacles (Fayolle & Gailly, 2015; Patel & Thatcher, 2014). Evidence of this is provided in a recent study by Stappers and Andries (2021), who show that while impulsivity/hyperactivity traits help aspiring entrepreneurs, symptoms of inattentiveness related to ADHD hinder the transition of individuals' intentions into actual entrepreneurial behaviour (Kautonen et al., 2015; van Gelderen et al., 2015). Hence, venturesomeness is related to functional impulsivity (Dickman, 1990; Wiklund et al., 2017), while gambling and its lack of forethought are regarded as a case of dysfunctional impulsivity which is detrimental to entrepreneurship (Wiklund et al., 2017).

Lastly, looking at the entrepreneur as a gambler neglects a rich body of research suggesting that new venture survival is attributable to skill (Baptista et al., 2014; Carbonara et al., 2020; Lyles et al., 2004; Van Praag, 2003). Studies in this domain emphasize that entrepreneurs' pre-entry knowledge (i.e. knowledge associated with general and specific human capital) is a significant determinant of new ventures' chances of survival. Similarly, other studies note that firms run by novice entrepreneurs endowed with high entrepreneurial skills have the highest probability to survive (Carbonara et al., 2020). Moreover, entrepreneurs' experience in a similar industry generates transferable capabilities and knowledge about the task environment, improving the chances of survival (Lyles et al., 2004; van Praag, 2003). Overall, we must agree with Gompers et al. (2006, p. 25), who conclude that 'if prior success were pure luck, we would not see this pattern [of results]'.<sup>5</sup>

## SURVIVAL BEYOND ECONOMIC REASONS: THE ROLE OF EMOTIONS AND COGNITION IN NEW VENTURES' SURVIVAL

In contrast to Coad and Storey's (2021) arguments, many scholars maintain that new venture survival is not simply a matter of economic and/or financial reasons (De Cock et al., 2020; Gimmon & Levie, 2010; Kato & Honjo, 2015; Khelil, 2016; Maliranta & Nurmi, 2019; van Praag, 2003; Wennberg, 2009; Wilson et al., 2014), acknowledging the importance of psychological and subjective aspects that influence survival (De Cock et al., 2020; DeTienne et al., 2008; Gimeno et al., 1997; Lee & Lee, 2015; Stenholm & Renko, 2016). For example, the recent work by De Cock et al. (2020)<sup>5</sup> illustrates how psychological processes and, more specifically, entrepreneurs' emotional regulation strategies can influence new ventures' chances of survival. The authors show that the effects of cognitive reappraisal and expressive suppression on survival vary, depending on whether the venture is a low- or a high-performing one. These findings resonate with McKelvey's (2004) idea of agents—entrepreneurs—as being not uniform, 'probabilistically idiosyncratic' and able to change the nature of their attributes and capabilities as they learn. Thus, the survival of new ventures appears to hinge not only on the entrepreneur's ability to process information inputs from the environment and make adjustments based on this feedback (Nicholls-Nixon et al., 2000), but also on how they perceive/interpret/make sense of such feedback. Conversely, Coad and Storey's (2021) work implicitly assumes that the agents behind firm creation are homogeneous, which seems unlikely. It is broadly acknowledged in the literature that entrepreneurs have different motivations to start a business, shown, for example, by the difference between profit-driven, non-profit and pro-social ventures (Fauchart & Gruber, 2011; Kibler et al., 2019; Kimmitt et al., 2020) or dignity motives in senior entrepreneurship (Soto-Simeone & Kautonen, 2020). Such motives, in turn, are relevant when determining which measures of performance best capture the realization (or lack thereof) of the firm's objectives (for instance, some firms might prioritize their social impact over financial performance; Grimes et al., 2013).

The antecedents previously exposed lead us to reaffirm our positions regarding psychological aspects of entrepreneurs as important predictors of new ventures' survival. In contrast to our view, Coad and Storey (2021) conclude that 'it is at best unfortunate, and at worst

<sup>5</sup> Unfortunately, De Cock et al.'s (2020) article was not available at the time of our literature search.

seriously misleading, for scholars to assert that new venture performance—survival and growth—is strongly attributable to entrepreneurial skills and mindsets, etc. when the predictive evidence of the role played by these qualities is low' (p. 14). It seems that these conclusions are shaped, in part, by three main issues related to aspects that we previously discussed in this article: (1) survival and growth are assumed to be equally relevant for different types of new ventures (i.e. profit/non-profit/pro-social); (2) the disregard of nuances and complexities when survival, growth and performance are analysed jointly, as analogous variables, or even as the outcome of the same process; and (3) Coad and Storey's (2021) ontological and epistemological approaches to new venture survival and performance.

We considered the first and second of these points in our review article when analysing the influence of the entrepreneur on new ventures' chances for survival. When we describe the existing literature, which has explored characteristics of founders and founding teams, we explicitly focus on survival. Our review outlines that decades of research on new venture survival have shown that, for instance, confidence and optimism are drivers for venture creation, while overconfidence is a threat to survival. However, we avoided the topics of performance and growth, since the causes or factors that influence the latter are beyond the scope of our analysis.

Another shortcoming of the gambling analogy is that it misrepresents the effects of (entrepreneurial) learning. Coad and Storey (2021) reject entrepreneurial learning because they conceptualize it as: (1) the outcome of repeated trials and not experience; (2) entrepreneurs' misfortunes repackaged as learning opportunities; and (3) the diversity of skills required to ensure the venture's survival (Coad & Storey, 2021). We already discussed entrepreneurial skill issues and psychological processes (e.g. resilience and cognitive reappraisal) that might explain the 'repackaging' of misfortunes. We argue that considering learning as the result of repeating something ignores the role of critical incidents for entrepreneurial learning, where not the frequency, but rather the significance of an event has important implications for entrepreneurs' decisions (Clinton et al., 2020; Haider & Mariotti, 2016; Lindh & Thorgren, 2016). Above that, we do not rule out that there might be some entrepreneurs who start a business with the objective of 'learning' in itself (e.g. learning how to start a business, and how the market operates in practice; Rae, 2006). As such, even when these individuals' skills might not be strong enough, they may supplement this lack of skill by associating with appropriate partners, investors or mentors (Anderson et al., 2010) and further complement them with their persistence, 'fighting spirit', resilience, patience and endurance (Zeng & Ouyang, 2020).

## A GAMBLER? RATHER A SAILOR!

To conclude, rather than seeing entrepreneurs as gamblers—an analogy which is not only myopic but also has negative connotations—we would like to offer an alternative metaphor of the entrepreneur as a sailor. They do not control the weather, nor can they change the patterns of the tides. However, they can adjust their sails to stay afloat (survive); they can influence their crew members' moods and efforts; and they can make decisions on moving forward or remaining at anchor if weather conditions are adverse. Having accomplished (or ensured) this primary goal, they will assess their sailing/navigation performance based on, for instance, speed (if they want to be the fastest), sustainability (if they want to navigate in the cleanest possible way), new routes discovered (if they want to go through the nicest or calmest landscapes), safety (if they aim to avoid collisions), crew happiness (if their focus is on people's wellbeing) or output (if they want to optimize fuel/energy consumption). Moreover, as observed in entrepreneurs, sailors also differ in their motivations; for instance, what motivated Columbus, Magellan or Shackleton to sail to America and the Antarctic is quite different from the motivations of sailors competing for the America's Cup or in the Olympics.

We hope that the clarifications made in this paper will contribute to the transparency of our analysis and help our readers understand why we made the decision to focus specifically on survival as a primary objective for new ventures and as one among many dimensions of performance. We sincerely thank Coad and Storey (2021) for engaging in this conversation, and we hope that our reflection on the importance of clear and precise terminology fosters deliberation and caution, since all of us are liable to use language unconsciously and indistinctively.

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