

## Failing Forward: The Role of Failure Tolerance, Resilience, and Social Capital in Serial Entrepreneurship Success

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### ABSTRACT

Serial entrepreneurship — the act of founding multiple ventures sequentially — presents a paradox: failure is common yet experienced entrepreneurs appear to leverage prior failure as a springboard for subsequent success. This study examines the interplay of three core constructs — failure tolerance, psychological resilience, and social capital — in shaping the performance outcomes of serial entrepreneurs. Grounded in Experiential Learning Theory and the Resource-Based View, we develop and test a conceptual model using a mixed-methods design comprising a survey of 284 serial entrepreneurs across India, the United Kingdom, and the United States, complemented by 22 in-depth interviews. Results indicate that failure tolerance and resilience jointly mediate the relationship between prior venture failure and subsequent venture success, while social capital — particularly bridging ties — significantly moderates this pathway. Entrepreneurs who reframe failure as instructive, maintain adaptive coping strategies, and sustain diverse relational networks demonstrate markedly higher success rates in follow-on ventures. The findings extend entrepreneurship theory and offer targeted guidance for ecosystem builders, incubators, accelerators, and policymakers aiming to cultivate environments that enable productive failure and durable entrepreneurial careers.

*Keywords: serial entrepreneurship, failure tolerance, entrepreneurial resilience, social capital, venture failure, entrepreneurial learning, bricolage*

## 1. INTRODUCTION

Entrepreneurial failure is ubiquitous. Globally, more than 50% of new ventures cease operations within five years (Headd, 2003; Frankish et al., 2013), and the psychological, financial, and reputational costs of venture failure are well documented. Yet failure does not mark the end of the entrepreneurial journey for many founders — it marks a beginning. Serial entrepreneurs, those who found, exit, and re-enter venturing cycles, now constitute a significant and growing segment of the entrepreneurial population, and evidence consistently suggests that prior experience — including failure experience — can confer competitive advantages in subsequent endeavors (Ucbasaran et al., 2013).

Despite this, the mechanisms through which failure translates into future success remain undertheorized. Not all entrepreneurs who fail go on to succeed; the variance in outcomes is substantial. What distinguishes those who 'fail forward' — treating failure as fuel — from those for whom failure represents a terminal event? This study argues that three constructs lie at the heart of this distinction: failure tolerance (the cognitive and affective capacity to accept, process, and learn from venture failure), entrepreneurial resilience (the capacity to recover, adapt, and persevere following adversity), and social capital (the networks, norms, and trust that facilitate collective action and resource access).

While each construct has received individual scholarly attention, their joint operation in the serial entrepreneurship context has not been empirically examined. This study addresses that gap, guided by three research questions:

RQ1: How does failure tolerance mediate the relationship between prior venture failure and subsequent venture success among serial entrepreneurs?

RQ2: What role does entrepreneurial resilience play in enabling serial entrepreneurs to convert failure experience into actionable learning?

RQ3: How does social capital — particularly the structure and composition of relational networks — moderate the failure-to-success pathway?

The remainder of this paper is organized as follows: Section 2 reviews the theoretical and empirical literature; Section 3 details the methodology; Sections 4 and 5 present results and discussion; Sections 6 and 7 address implications and limitations; Section 8 concludes.

## 2. LITERATURE REVIEW

### *2.1 Serial Entrepreneurship and the Learning Paradox*

Serial entrepreneurship is distinct from portfolio entrepreneurship (simultaneously managing multiple ventures) and novice entrepreneurship (founding a first venture). Research on serial entrepreneurs has generated mixed findings: while some studies document a 'learning advantage' — experienced entrepreneurs identify better opportunities, assemble stronger teams, and manage resources more effectively (Gompers et al., 2010) — others caution that experience can engender overconfidence, escalation of commitment, and cognitive rigidity (Ucbasaran et al., 2010).

The resolution of this paradox lies in the quality of learning from failure, not merely its occurrence. Cope (2011) articulated a framework of 'entrepreneurial learning from failure' encompassing emotional processing, sense-making, and knowledge reconstruction. Entrepreneurs who engage in deep, reflective learning post-failure are better positioned to build ventures that avoid prior pitfalls, while those who attribute failure externally or fail to engage in systematic reflection derive minimal learning value.

### *2.2 Failure Tolerance: Cognitive and Affective Dimensions*

Failure tolerance, as conceptualized in the entrepreneurship literature, encompasses both cognitive appraisal (how entrepreneurs interpret failure) and affective regulation (how they manage negative emotions arising from failure). McGrath (1999) argued that failure-tolerant environments produce superior exploration and innovation, as entrepreneurs feel licensed to experiment without existential consequences. At the individual level, Shepherd (2003) demonstrated that grief processing — the emotional work of accepting a failed venture — is a prerequisite for effective learning. Entrepreneurs who suppress or prematurely terminate grief experience diminished learning and reduced re-entry motivation.

Failure tolerance is further shaped by cultural and institutional contexts. Societies with lower stigma around business failure (e.g., the United States) tend to produce higher rates of serial entrepreneurship than those with punitive bankruptcy regimes or reputational penalties for failure (e.g., parts of Europe and Asia), though this gap has narrowed as entrepreneurial ecosystems have matured globally (Wyrwich et al., 2016).

### ***2.3 Entrepreneurial Resilience***

Psychological resilience — originally studied in developmental psychology as the capacity of children to thrive despite adversity — has been translated into entrepreneurship research as the ability to recover, reorganize, and re-engage following setbacks (Bullough & Renko, 2013). Entrepreneurial resilience is not mere 'bouncing back' to a prior state; it is a dynamic process of positive adaptation that may result in growth beyond pre-failure levels — what Luthans et al. (2006) termed 'resilience capital' within the Psychological Capital (PsyCap) framework.

Key antecedents of entrepreneurial resilience include: emotion regulation skills, growth mindset orientation (Dweck, 2006), access to mentoring and peer support, and the availability of financial buffers that reduce existential threat. Resilient entrepreneurs are better equipped to maintain goal pursuit under adversity, pivot business models effectively, and sustain the motivation necessary for re-entry into venturing.

### ***2.4 Social Capital in the Entrepreneurial Context***

Social capital — the resources accessible through social networks — has long been recognized as a critical asset for entrepreneurs (Nahapiet & Ghoshal, 1998). Putnam's (2000) distinction between bonding capital (dense, trust-rich ties within a group) and bridging capital (weaker, diverse ties across different groups) is particularly salient for serial entrepreneurs: bonding ties provide emotional support and legitimacy during failure, while bridging ties provide access to novel information, resources, and opportunities essential for re-entry.

Burt's (2004) structural holes theory extends this analysis, suggesting that entrepreneurs who bridge structural gaps between otherwise disconnected networks accrue informational and positional advantages. In the serial entrepreneurship context, maintaining and reconstituting diverse networks after failure is a critical competence — yet failure events often trigger network contraction as investors, partners, and acquaintances withdraw, making network maintenance and rebuilding a key challenge and differentiator.

### ***2.5 Theoretical Framework***

This study synthesizes two theoretical perspectives. Experiential Learning Theory (Kolb, 1984) posits that effective learning from experience requires a cycle of concrete experience,

reflective observation, abstract conceptualization, and active experimentation. In the serial entrepreneurship context, failure constitutes the concrete experience; failure tolerance enables reflective observation; resilience supports conceptualization and re-entry; and social capital provides the relational resources necessary for active experimentation in new ventures. The Resource-Based View (Barney, 1991) complements this by framing failure tolerance, resilience, and social capital as idiosyncratic, path-dependent resources that confer sustained competitive advantage over less experienced entrepreneurs.

### **3. METHODOLOGY**

#### ***3.1 Research Design***

A sequential explanatory mixed-methods design was adopted, beginning with quantitative survey data to test the proposed model, followed by qualitative interviews to explain and contextualize the statistical findings. This design is well-suited to entrepreneurship research where contextual richness is critical to understanding variance in outcomes (Edelman & Yli-Renko, 2010).

#### ***3.2 Sample and Data Collection***

The quantitative sample comprised 284 serial entrepreneurs — defined as individuals who had founded at least two ventures, experienced at least one venture failure or closure, and were currently active in or had recently exited a subsequent venture. Participants were recruited through entrepreneurship networks, alumni associations, startup accelerators, and LinkedIn outreach across India ( $n = 98$ ), the United Kingdom ( $n = 91$ ), and the United States ( $n = 95$ ). This cross-national design enabled examination of cultural and institutional variation. A purposive subsample of 22 participants completed in-depth semi-structured interviews lasting 45–75 minutes, selected to maximize variation across industry, gender, age, and failure type.

#### ***3.3 Measures***

Failure Tolerance was measured using a 10-item adapted scale drawing from McGrath (1999) and Shepherd (2003), assessing items such as willingness to take risks despite failure history and emotional recovery from venture closure ( $\alpha = 0.86$ ). Entrepreneurial Resilience was assessed using the Entrepreneurial Resilience Scale (ERS; Ayala & Manzano, 2014), comprising 12 items across subscales of perseverance, equanimity, and self-reliance ( $\alpha = 0.89$ ). Social

Capital was operationalized along three dimensions: structural (network size and diversity; adapted from Burt, 2004), relational (trust and reciprocity), and cognitive (shared vision and norms; Nahapiet & Ghoshal, 1998) — 18 items total ( $\alpha = 0.87$ ). Venture Success in the subsequent venture was assessed using a composite of self-reported revenue growth, profitability attainment, and survival beyond 3 years. All scales used 5-point Likert or ratio formats. Prior failure severity was measured via a single index capturing financial loss magnitude, reputational impact, and emotional intensity.

### **3.4 Data Analysis**

Quantitative data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS 4, appropriate given the composite measurement model and the exploratory nature of several constructs. Mediation was assessed using bootstrapped indirect effects (5,000 iterations). Moderation was tested via interaction terms between social capital dimensions and the resilience  $\rightarrow$  success pathway. Interview transcripts were analyzed using grounded theory-informed thematic coding in NVivo 14, with themes inductively derived and cross-validated by two researchers (Cohen's kappa = 0.79).

## **4. RESULTS**

### **4.1 Measurement Model**

PLS-SEM assessment confirmed acceptable reliability and validity across all constructs. Composite reliability ranged from 0.84 to 0.92. Average Variance Extracted (AVE) exceeded the 0.50 threshold for all constructs, confirming convergent validity. The Heterotrait-Monotrait (HTMT) ratio confirmed discriminant validity, with all values below 0.85.

### **4.2 Mediation: Failure Tolerance and Resilience (RQ1 & RQ2)**

Prior failure severity was negatively associated with subsequent venture success in the absence of mediators ( $\beta = -0.31$ ,  $p < .001$ ), confirming the baseline liability of failure history. When failure tolerance and resilience were introduced as sequential mediators, the direct path became non-significant ( $\beta = -0.09$ ,  $p = .21$ ), indicating full serial mediation. Failure tolerance significantly predicted resilience ( $\beta = 0.54$ ,  $p < .001$ ), and resilience significantly predicted subsequent venture success ( $\beta = 0.49$ ,  $p < .001$ ). The bootstrapped indirect effect through both

mediators was significant ( $B = 0.26$ , 95% CI [0.18, 0.35]), confirming that failure tolerance and resilience jointly transform prior failure from a liability into a learning asset.

#### ***4.3 Moderation: Social Capital (RQ3)***

Bridging social capital significantly moderated the resilience  $\rightarrow$  success relationship ( $\beta$  interaction = 0.22,  $p = .007$ ;  $\Delta R^2 = 0.05$ ), such that the positive effect of resilience on success was substantially stronger among entrepreneurs with diverse, bridging-rich networks. Bonding capital showed a weaker and non-significant moderating effect ( $\beta = 0.11$ ,  $p = .14$ ), suggesting that emotional support from close ties, while valuable, is insufficient alone to convert resilience into venture performance. Cross-national moderation analysis revealed that institutional environment (proxied by World Bank ease of doing business rankings) further shaped the failure tolerance  $\rightarrow$  resilience pathway: entrepreneurs in higher-institutional-support contexts exhibited stronger mediation effects.

#### ***4.4 Qualitative Themes***

Thematic analysis produced four core themes. First, Reframing Failure as Curriculum: successful serial entrepreneurs uniformly described a deliberate cognitive reappraisal process — treating each failed venture as 'tuition paid' and conducting personal post-mortems to extract transferable lessons. Second, Network Curation Post-Failure: high-success entrepreneurs actively rebuilt and diversified their networks after failure, specifically seeking mentors and peers who had navigated similar setbacks. Third, Institutional Safety Nets as Resilience Amplifiers: entrepreneurs in ecosystems with accessible re-financing options, supportive incubator communities, and mentoring programs reported significantly faster emotional recovery and re-entry timelines. Fourth, Identity Anchoring: entrepreneurs who maintained a stable, growth-oriented entrepreneurial identity — irrespective of individual venture outcomes — showed higher persistence and lower susceptibility to failure stigma.

### **5. DISCUSSION**

The findings provide compelling evidence that the pathway from failure to success in serial entrepreneurship is neither automatic nor uniform — it is mediated by the psychological resources of failure tolerance and resilience, and moderated by the structural configuration of social capital. These results make several important theoretical contributions.

First, the serial mediation result — where failure tolerance precedes and enables resilience, which in turn drives success — implies a temporal sequence with practical implications. Entrepreneurs must first cognitively and emotionally process failure (failure tolerance) before they can activate the adaptive behaviors associated with resilience. Interventions that shortcut this process — for instance, pressuring founders to re-enter markets prematurely before adequate emotional processing — may undermine rather than support resilience development. This finding resonates with Shepherd's (2003) grief processing model and extends it by demonstrating its downstream effect on venture performance.

Second, the differential moderation by bridging versus bonding social capital contributes importantly to the social capital literature. The non-significant effect of bonding capital on the resilience-success pathway suggests that emotional support from close networks is necessary but not sufficient for performance; what ultimately drives success is access to diverse, non-redundant information and resource networks. This has implications for how entrepreneurs should strategically invest in relationship-building during and after failure periods — prioritizing network diversification over the natural tendency to retreat into trusted close ties.

Third, the cross-national variation — with institutional support environments amplifying the mediation effects — underscores the embeddedness of individual entrepreneurial psychology within broader ecosystem conditions. Failure tolerance and resilience are not purely intrinsic traits; they are cultivated or suppressed by the institutional and cultural contexts in which entrepreneurs operate. This finding integrates individual and institutional levels of analysis in a manner consistent with the call for multi-level frameworks in entrepreneurship research (Shepherd et al., 2019).

## **6. PRACTICAL IMPLICATIONS**

For ecosystem builders and policymakers, the results advocate investment in failure-friendly institutional infrastructure: accessible re-financing mechanisms, bankruptcy reform that reduces stigma and legal penalty, and peer-learning communities where experienced failures can share knowledge with nascent entrepreneurs. Accelerators and incubators should integrate structured failure debriefing — formal post-mortem processes that guide entrepreneurs through reflective learning — as a standard program component, not merely a post-hoc exercise.

For investors, particularly venture capitalists evaluating serial entrepreneurs, the findings suggest that the quality of failure processing (evidenced by the entrepreneur's capacity to articulate lessons learned, network breadth, and resilience markers) is a more reliable predictor of future success than failure occurrence per se. Due diligence frameworks should incorporate psychological capital assessment alongside financial and market metrics.

For entrepreneurs themselves, the study underscores the value of deliberate network investment during and after failure — specifically, maintaining and building bridging ties that provide access to diverse perspectives, resources, and opportunities. Equally important is allowing adequate time and space for emotional processing of failure before committing to a new venture, in order to maximize the learning value of the failure experience.

## **7. LIMITATIONS AND FUTURE RESEARCH**

This study carries several limitations. The cross-sectional survey design limits causal inference; longitudinal panel data tracking entrepreneurs across multiple venture cycles would substantially strengthen conclusions. Self-reported measures of venture success introduce social desirability bias; future studies should triangulate with objective financial performance data where available. The three-country sample, while more diverse than most prior studies, may not capture the full spectrum of cultural variation in failure stigma and social capital norms — particularly in East Asian and African entrepreneurial contexts that are underrepresented in the literature.

Future research should examine how specific types of venture failure (e.g., market failure vs. founder conflict vs. financial insolvency) differentially activate failure tolerance and resilience mechanisms. The role of gender in mediating failure tolerance and resilience deserves dedicated investigation, as evidence suggests that female entrepreneurs face compounded stigma and network access barriers post-failure. Additionally, digital social capital — networks formed through online platforms and virtual communities — is an emerging dimension that may modify the bridging capital moderation effects identified in this study.

## **8. CONCLUSION**

Failing forward is not a passive process — it is the product of deliberate psychological work, relational investment, and institutional support. This study demonstrates that serial

entrepreneurship success is not simply the reward for persistence, but the outcome of a structured transformation process in which failure is cognitively reframed, emotionally processed, and relationally resourced. Failure tolerance creates the conditions for resilience; resilience, amplified by diverse social capital, translates into venture performance. For entrepreneurs, ecosystem builders, and scholars alike, these findings invite a fundamental reorientation: from viewing failure as an aberration to be minimized, toward recognizing it as the most powerful, and most underutilized, school of entrepreneurship we have.

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