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Europe's failure to deal with failure

You learn very little or even nothing from winning. The act of failing, however, can lead to great wisdom, says **Reinhold M. Karner**

Have you ever failed?

Failure is human – it can happen to anyone. That doesn't take off its cutting edge – it's unpleasant, sometimes dramatic and often feels like a bereavement. However, failure could also be the start of many new opportunities, challenges, new options and possibilities.

The only thing that perpetuates failure is to turn it into a permanent state. Nature itself can look as if it is failing. But as always, nature is the most excellent teacher because when it fails, it proceeds to learn and improve – and that is called evolution.

Businesses also fail – services, products and entrepreneurs go through a cycle of ups and downs. But unfortunately – and unlike what happens typically in the US – in Europe, we lack the culture of dealing adequately and in a modern way with failure.

We stigmatise failed entrepreneurs

In entrepreneurship especially, failure is a taboo – we in Europe stigmatise entrepreneurs, portray them as losers and refuse them a second, unburdened chance to restart from scratch.

For decades, enterprises' worldwide average lifespan has constantly been shrinking. In the EU, the death rates of enterprises, published by Eurostat's regional yearbooks, now averaged around eight to 10 per cent per annum in relation to the population of active enterprises. But they vary within the reported 167 regions,



Two-thirds of failing entrepreneurs become largely broke, traumatised and, in many countries, even stigmatised. Thus, they will never try again. PHOTO: SHUTTERSTOCK.COM

almost from three to 19 per cent. In the US and Asia, it's similar. Thus, the average lifespan of businesses in democracies is short, just nine to 11 years.

According to Eurostat's report "key figures on European business 2022 edition", in 2019, the overwhelming majority, 98.9 per cent, of EU businesses were micro or small enterprises employing fewer than 50 persons and 0.9 per cent of medium-sized enterprises that employed up to 250 people. Only 0.2 per cent are large enterprises.

One out of every five enterprises born in the previous year in the EU's business

economy had not survived their first year. The EU five-year survival rate for enterprises born in 2014 and still active in 2019 was 45 per cent; in other words, 55 per cent of all newly born enterprises from the 2014 cohort did not survive until 2019.

And when we look at the survival rate of start-ups, we see an alarming 80 up to 90 per cent of doomed cases within five years, especially when we look at the high-tech wizards.

The pity is that over two-thirds of the failing entrepreneurs become largely broke, traumatised and, in many

countries, even stigmatised. Thus, they will never try again.

Aspiring entrepreneurs hear and read again and again that failure is our most important teacher. But no one starts a business just looking for this lesson, of course.

A McKinsey study showed that less than two per cent of all companies reach the age of 100 years; half of all listed companies disappear within a decade. Only one in seven reaches the 30th year of life and only one in every 20th makes it to the 50th anniversary.

In the EU, we have a non-culture of failure

Our highly conservative, old-fashioned and negative sentiment about failure might be due to our complex history of mind in Europe. We shouldn't be surprised why, out of the global nine digital giants – the so-called digital dragons or big nine – six are based in the US (Google, Amazon, Apple, IBM, Microsoft, and Meta) and three in China, (Baidu, Alibaba, and Tencent) but none are in Europe.

You learn very little or even nothing from winning. The act of failing, however, can lead to great wisdom in business and life. Failure is inevitable – the trick is not to make a habit of it. There are always failed attempts, or you have to lose some to win some, such as breaking an egg to make an omelette. The most important thing is not to lose track; learn and stay tuned.

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CLASSIFIED NEWS

'The only constant is change'

CONTINUED FROM PAGE 1

So, what's the most crucial thing in Silicon Valley? It's the rubbish bins! Because they know by concept and normality that one fails largely and has to reject 99 out of 100 ideas and attempts to get the one really successful product or company.

Thus, frequently, you have to throw away all your work early, write off the investment and radically change your project, design, development or business model. In Silicon Valley, this is called pivoting and is welcomed, even pushed, by investors. In Europe, this sounds more than an alien concept.

An entrepreneur takes decisions and risks every hour of every day. But we never know beforehand how things we have considered, assumed and predicted – by even having the best data and experience on hand – will develop. The only constant is change – hence, we sometimes succeed and sometimes fail. The risk of failing is inherent, always everywhere and within everything.

What would be the alternative to avoid failure? Just stop taking decisions. In its extreme form, this would lead to inactivity, irresponsibility, lack of civil courage, lack of independence and complete lethargy. Nothing ventured, nothing gained.

From a democratic and political perspective, a culture that does not allow failure is questionable. As the Austrian-British philosopher and professor Sir Karl Popper, once said in an interview with the German Handelsblatt group: "We can only gain from failing if our society does not sanction the failure".

We are too risk-averse

In Europe, as many studies prove, there is rarely a culture and tolerance in favour of failure, and business failures are viewed more critically than failures in general. In studies, many respondents think entering entrepreneurship is not recommended due to the existing risk. The population suggests it is predominantly risk-averse and has little tolerance for entrepreneurial failure.

A 2019 study from Germany, authored by Marvin Faradjollahi, an associate at PwC, claims that more than 75 per cent of respondents are optimistic about whether failed entrepreneurs deserve a second chance, which is a positive sea change compared to two decades before. But when asked if they would enter a business relationship with a previously failed entrepreneur, over 40 per cent of respondents said

they would be reluctant to buy goods from or invest in the business of a former failed entrepreneur.

On the other hand, many famous entrepreneurs in the US failed in business before becoming highly successful. A newspaper editor fired Walt Disney for not having any imagination, while Henry Ford founded two failed automotive companies before he was successful with Ford Motor Company.

When Apple fired Steve Jobs, he said: "The heaviness of being successful was replaced by the lightness of being a beginner again." And we all know how that story continued. Max Levchin's PayPal was actually his fifth attempt at founding a successful

company. Before co-founding LinkedIn and investing in big names like PayPal and Airbnb, Reid Hoffman created SocialNet, an online dating and social networking site that ultimately failed. And Evan Williams, co-founder of Twitter, failed miserably with his first podcasting platform, Odeo.

But what happens if you fail as an entrepreneur not just here and there but to the extreme extent, becoming – for whatever reason – not just insolvent with your business but, consequently, bust with all your personal liabilities for your venture, thus bankrupt?

In the US, they just see it as bad luck, and within a few months, you'll get your discharge, hence, another second or next chance. You'll even be encouraged to restart from scratch as an even more experienced and thus, more valuable entrepreneur.

Many US investors are, in fact, happier to invest in a start-up where someone with such a 360-degree entrepreneurial experience is involved, as they assume that because of this learning curve, it might be implausible that failure will repeat itself.

In continental Europe, if there are by any chance proceedings for personal bankruptcy – as this

framework of law is still not perfectly harmonised or adequately implemented within the EU and hence very different country by country – discharge will take mostly three, five or even seven years. In some countries, this option is still not provided at all.

So, we shouldn't be surprised to see fewer successful businesses starting. The Global Entrepreneurship Monitor (GEM) report 2021/2022 still shows a worrying picture about the fear of failure rate. That's the Percentage of adults aged 18 to 64 who agree that they see good opportunities but would not start a business for fear it might fail.

These are exemplary percentages of the failure rate of a few countries in Europe from the GEM report: Switzerland 30.4, Latvia 37.3, Norway 38.3, Netherlands 36.8, Germany 37.9, Slovenia 43.0, Poland 43.5, Sweden 43.6, France 44.1, Finland 44.5, Italy 45.3, Slovak Republic 46.0, Ireland 49.9, Cyprus 50.1, Spain 51, Greece 51.5, the UK 51.8.

Failures are like tree leaves falling to the ground

Therefore, the founding father of the world's most valuable company to date – Apple – Steve Jobs, was right in his biography (Chapter 42, *Legacy*) stating that, "to build a real company that will still stand for something a generation or two is the hardest work in business".

There is nothing wrong with failing as long as illegal transactions don't cause it. Failures are like tree leaves falling to the ground, becoming the soil for the future. But if you don't allow trees to grow leaves because they can fall, you don't get soil anymore. And then you won't have any trees in the future. Or as stated in the Bible, "unless a kernel of wheat falls to the ground and dies, it remains only a single seed. But if it dies, it produces many seeds."

Therefore, we all should open up for more tolerance, a modern culture of failure in Europe. Following my motto: "To be successful isn't the problem. But to achieve enduring success is! To be sustainably successful is a great art, a perpetual challenge that follows its own rules and realities. Memento mori!"

Reinhold M. Karner is an entrepreneurship and start-up evangelist, multiple chairman (e.g. AP Valletta), corporate philosopher, entrepreneur, author, university lecturer and fellowship connector of the Royal Society for Arts, Manufactures and Commerce (RSA) for Malta and Austria.



There is nothing wrong with failing as long as illegal transactions don't cause it

CAREER OPPORTUNITIES

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Applications will be received till Friday 24th February 2023 at 14:00 hrs.



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