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ENTREPRENEURIAL FAILURE AND BUSINESS RECOVERY IN PAKISTAN: HOW SMALL BUSINESS OWNERS REBUILD AFTER FINANCIAL SETBACKS

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Abstract

Entrepreneurial failure can create learning opportunities, but recovery from financial setbacks may also depend on business owners' ability to manage financial difficulties. This study examines the relationships between learning from entrepreneurial failure, financial resilience, and business recovery among small-business owners in Hyderabad, Sindh, Pakistan. The study used a quantitative, cross-sectional survey design and drew on questionnaire data from 173 business owners who had experienced significant financial setbacks. The study analyzed data using descriptive statistics, reliability analysis, Pearson's correlation, and multiple linear regression in SPSS. The results indicate that learning from entrepreneurial failure and financial resilience were both positively associated with business recovery. Learning from failure demonstrated the stronger association ($\beta = .321, p < .001$), *while financial resilience also contributed significantly* ($\beta = .180, p < .015$). *Together, the predictors explained 17.2% of the variance in business recovery. The findings highlight the relevance of learning and financial resilience in understanding how entrepreneurs respond to financial adversity. The study contributes context-specific evidence on recovery within existing businesses, while its cross-sectional design and purposive sample limit causal interpretation and generalizability.*

INTRODUCTION

Small businesses often face financial setbacks resulting from declining sales, debt, liquidity shortages, and unforeseen expenses. Such difficulties can jeopardize business continuity, especially when owners have limited financial resources and few avenues to cover losses. The consequences of failure depend not only on its severity, but also on how entrepreneurs interpret their experiences, mobilize resources, and correct their decisions. Failure can generate valuable knowledge, but its emotional, financial, and operational implications can deter follow-up (McGrath, 1999; Shepherd, 2003; Ucbasaran et al., 2013). Therefore, understanding how entrepreneurs rebuild after financial setbacks helps explain differences in small-business recovery.

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One possible explanation is entrepreneurial learning. Entrepreneurs can learn by recognizing weaknesses in past decisions, assessing the causes of setbacks, and applying lessons to subsequent business activities. Entrepreneurial learning theory suggests that experience becomes useful when individuals reflect on events and gain insights into how they act (Politis, 2005). Qualitative evidence also shows that learning from failure can improve entrepreneurs' self-recognition, self-awareness, business governance, and relationships, which can improve their readiness to meet future challenges (Cope, 2011). However, failure does not automatically generate constructive learning; false attributions and poor reflection can reduce the value of experience (Ucbasaran et al., 2013). A systematic review also identifies unresolved issues in how failure-related observations become effective knowledge and how learning contributes to different forms of recovery (Lattacher & Wdowiak, 2020).

The second important factor is financial resilience, which refers to the perceived capacity to withstand financial pressure, respond to financial difficulties, and continue making business decisions under limited circumstances. Learning can help owners identify appropriate corrective actions, but carrying them out may require financial flexibility and adaptability. Studies on entrepreneurial firms show that systematic analysis of failure may strengthen entrepreneurial resilience, though relationships depend on firms' characteristics and knowledge (Yao et al., 2021). Under uncertain conditions, organizational and financial resilience emerged as important dimensions of small-business sustainability (Diego et al., 2025). A systematic review of SME resilience during global crises also underscores the importance of understanding the factors that support survival and adaptation to unfavorable conditions (Mohamed Senin et al., 2024). These findings form the basis for an investigation into whether financial resilience, in addition to learning from failure, is connected to business recovery.

This is particularly relevant in emerging countries, where financial restrictions and external uncertainties may hinder small-business adjustment. Evidence from Pakistan indicates the importance of investigating entrepreneurial responses within local institutional and social contexts. Recent qualitative research with restaurant owners in Karachi identified business resilience as relevant during and after the COVID-19 crisis, including proactive decision-making, family and social support, rapid adaptation, and peer learning (Shahid et al., 2026). Another recent study of 318 Pakistani entrepreneurs analyzed learning from failure in terms of entrepreneurial re-entry intentions and identified psychological attributes and emotion regulation as relevant factors (Iqbal et al., 2026). While these studies advance understanding of entrepreneurship in the face of adversity, re-entry differs from recovery within an existing business, and crisis-specific resilience recovery does not necessarily explain differences across types of financial setbacks.

Therefore, business, entrepreneurial re-entry, and business recovery survival remain a key distinction. Survival indicates continued operation, while re-entry concerns the intent or decision to resume entrepreneurship and does not necessarily reflect the stability of an existing business. Previous studies have addressed the personal impact of failure and processes of recovery and revival of entrepreneurs (Ucbasaran et al., 2013). The relationship between learning from entrepreneurial failure, financial resilience, and recovery in existing small businesses justifies further empirical study in Pakistan. This question is particularly relevant when recovery is understood through business owners' reported experiences rather than through continued operation alone.

Accordingly, this study examines the associations between entrepreneurial failure and financial resilience and business recovery among small business owners in Hyderabad, Sindh, Pakistan, who have experienced significant financial failures. Based on survey data from 173 respondents, the

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study uses multiple regression analysis to estimate the independent relationships between the two explanatory variables and business recovery. By focusing on recovery within existing businesses rather than entrepreneurial re-entry, the study provides context-specific evidence for post-setback Entrepreneurship research. These results help clarify whether learning from failure and financial resilience are associated with owners' reported recovery experiences. Similarly, the cross-sectional design means the results should be interpreted as associations, not causal effects.

2. Literature Review

A study on entrepreneurs and failure examines how business failure experiences shape entrepreneurs' decisions and subsequent outcomes. Failure can challenge existing assumptions, expose weaknesses in business management, and pressure incumbent practices to reconsider. However, the consequences partly depend on how entrepreneurs interpret and respond to their experience (McGrath, 1999; Shepherd, 2003). Therefore, the study treats failure not only as a negative outcome but also as a potential source of learning and adaptation (Ucbasaran et al., 2013).

Learning from entrepreneurial failure occurs when entrepreneurs reflect on their experiences and apply what they learn to later decisions. Entrepreneurship theory learning emphasizes developing knowledge from experience, not just experience itself (Politis, 2005). Failure can lead entrepreneurs to re-evaluate their decisions, identify weaknesses, and deepen their understanding of business risks (Cope, 2011). Nevertheless, learning is not automatic. Emotional distress, misinterpretation, or insufficient reflection may limit the lessons of failure (Shepherd, 2003; Ucbasaran et al., 2013). A systematic review continues to question how entrepreneurs convert failure experience into usable knowledge (Lattacher & Wdowiak, 2020). Recent studies also indicate the need to examine the background and outcome of entrepreneurial learning in several contexts (Iqbal et al., 2025).

Failure-related learning also has practical value by prompting entrepreneurs to take corrective action. Business owners might recognize past mistakes but remain unable to change how they use limited resources. Research on emerging market entrepreneurs shows that failure experience can affect subsequent entrepreneurial activities and reactions to calamity (Amankwah-Amoah et al., 2022). So learning from failure may be linked to recovery, although its relationship to recovery requires empirical analysis, not guesswork.

Financial resilience further explains how businesses respond to financial pressure. The study mentions the perceived capacity to handle financial issues and to make business decisions in adverse circumstances. Small and medium-sized enterprises (SMEs) have been studied for their importance in understanding how businesses respond to economic shocks and operational problems (Mohamed Senin et al., 2024). Broader reviews focus on resources and adaptive capabilities to clarify how SMEs respond to crises (Koporcic et al., 2026). These perspectives suggest that financial resilience can be associated with recovery, since entrepreneurs must manage financial constraints and adapt their business activities. However, the two financial concepts, resilience and business recovery, are distinct: the first concerns the ability to respond to setbacks, while the latter involves the outcome to be investigated.

The financial and institutional environment adds another dimension to understanding small-business constraints. Research on institutional quality and financial inclusion in emerging markets examines the circumstances surrounding new business formation (Shah, 2026b). Research on digital transformation and gaps in access to finance also highlights the relevance of financial resources in Pakistan and emerging markets (Shah, 2026a). Although these studies do not test business recovery directly after financial failure, they help contextualize the conditions under

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which entrepreneurs make financial decisions. Research on economic vulnerability and strategies to address problems in Sindh has added regional perspectives on responding to resource constraints (Shah, 2026c, 2026d, 2026e). Therefore, the study focuses on household food insecurity; its relevance is more contextual than immediate for today's research.

The literature also differentiates between business survival, business recovery, and entrepreneurial re-entry. Survival indicates the operation is continuing, while re-entry refers to the decision or intention to continue the entrepreneurship process. It does not necessarily mean an existing business has restored stability. Business failure examines the effects of failure on business people. The follow-up actions that reviews of entrepreneurial re-entry examine the impact of failure on subsequent decisions of entrepreneurs (Costa et al., 2023; Ucbasaran et al., 2013). Research on learning from failure has also examined Pakistani entrepreneurs in relation to re-entry intentions (Iqbal et al., 2026). However, the intention to set up another company differs from returning to the existing business after financial difficulties.

The findings in Pakistan underline the importance of adaptation and social resources in business resilience. Studies with restaurant owners in Karachi have indicated that personal obligations, social support, operational adaptation, and peer learning were associated with resilience during and after the COVID-19 crisis (Shahid et al., 2026). However, this evidence focuses on a specific crisis and business sector, leaving room to investigate how learning from entrepreneurial failure and financial resilience affect recovery following different types of financial setbacks. Based on entrepreneurial learning and resilience perspectives, the present study examines the relationships among small-business owners in Hyderabad, Sindh, Pakistan. It suggests that owners who report greater learning from failure may also report stronger business recovery. In contrast, those with greater financial resilience may be better positioned to manage setbacks and rebuild their businesses. The following hypotheses were proposed:

- H1: Learning from entrepreneurial failure is positively associated with business recovery.
- H2: Financial resilience is positively associated with business recovery.

3. Methodology

3.1. Research Design

The study used a quantitative cross-sectional research design to investigate the relationships between learning from entrepreneurial failure, financial resilience, and business recovery. The study collected primary data from small-business owners in Hyderabad, Sindh, Pakistan, between February 2026 and April 2026. The design enabled measurement of the three constructs and statistical examination of their relationships using SPSS. Given the cross-sectional design, the study interpreted the conclusions as associations, not causation. The study respected ethical principles of voluntary participation, informed consent, confidentiality, and responsible data processing in line with the data collection procedures.

3.2. Study Setting and Target Population

The study was carried out in Hyderabad, Sindh, Pakistan. The target population consisted of small-business owners who had experienced significant financial setbacks, including declining sales or income, debt or redemption problems, loss of investment or working capital, loss of large customers or contracts, and unexpected expenses or external economic shocks. The personal owner of the business was an analysis unit. Eligible respondents owned businesses that either did not undergo significant operational changes or were affected by restructuring or major business changes.

3.3. Sampling and Sample Size

The study used a non-probability purposive sampling approach to identify business owners who met the study's eligibility criteria. The initial

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target was 150 usable responses. Allowing for an anticipated 20% rate of non-response or unusable questionnaires, the recruitment target was calculated as follows:

$$n = \frac{150}{1 - 0.20} = 187.5 \approx 188$$

A total of 173 completed questionnaires were retained for analysis. Accordingly, the final analytical sample comprised 173 respondents. The number of individuals approached and those who declined participation were not available; therefore, the response rate could not be calculated.

3.4. Data Collection Instrument and Measurement

Data were collected using a structured questionnaire that included the respondents' questions, the business profile, and 12 measurement items across three constructs. Higher scores indicate greater agreement with the statements, and the measurement items use a five-point Likert scale (1 to 5)

Learning entrepreneurial failure (FL) was measured using four items assessing respondents' understanding of the causes of financial failures, recognition of weaknesses in earlier decisions, application of lessons to subsequent decisions, and ability to identify business risks. Financial resilience (FR) was measured using four items assessing respondents' ability to respond to financial pressures. It also assesses the ability to respond to financial pressures and address business issues. Business Recovery (BR) is measured using four items assessing respondents' experiences of recovery after financial errors. The combined points were calculated as the arithmetic mean of the four items for each construct, with higher scores indicating higher levels of the relevant construct.

3.5. Data Preparation and Statistical Analysis

The data were coded and analyzed using IBM SPSS Statistics. Frequencies and percentages were calculated for categorical respondent and business characteristics, and for the measuring points and composite designs, the mean and standard deviation were calculated. Cronbach's alpha and corrected item-total correlations were examined to assess the internal consistency of each four-point scale. Pearson correlation factors for the bivariate relationships between FL, FR, and BR were then calculated.

Multiple linear regression was conducted with business recovery as the dependent variable and learning as a covariate predicting entrepreneurial failure and financial resilience. The model was specified as:

$$BR_i = \beta_0 + \beta_1 FL_i + \beta_2 FR_i + \varepsilon_i$$

where BR_i represents business recovery, FL_i represents learning from entrepreneurial failure, FR_i represents financial resilience, β_0 is the intercept, β_1 and β_2 are the regression coefficients, and ε_i is the error term. We assessed statistical significance at $(p < .05)$. Regression results were evaluated using coefficients, standard errors, confidence intervals, model fit statistics, and significance values. Tolerance and variance inflation factors were examined for multicollinearity, while residual plots and standardized residuals were considered when assessing regression assumptions

.

4. Results

The analysis included 173 usable questionnaires from small business owners who experienced significant financial setbacks. The respondents represented different age groups, sectors, business types, and ownership levels. Retail trade and wholesale was the largest sector, while respondents most commonly reported financial failures as debt or repayment issues and reduced sales or income. Over half of the respondents reported that their businesses were operational after restructuring or significant changes.

Financial resilience had the highest average for the construction stage and learning, followed by entrepreneurial failure and business recovery. Average assessments were generally close to the midpoint of the five-point response scale,

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indicating moderate estimates for the three components. The descriptive statistics provide an overview of the sample and the major variables examined before assessing the credibility of the measurements and the hypothetical relationships.

Table 1. Respondent characteristics and descriptive statistics

Characteristic	Category	n	%
Age	Below 25 years	19	11.0
	25–40 years	65	37.6
	41–54 years	61	35.3
	55 years or above	28	16.2
Gender	Male	130	75.1
	Female	43	24.9
Business sector	Retail or wholesale trade	64	37.0
	Manufacturing or production	27	15.6
	Services	44	25.4
	Food and hospitality	25	14.5
	Other	13	7.5
Ownership experience	Less than 2 years	18	10.4
	2–5 years	63	36.4
	6–10 years	59	34.1
	More than 10 years	33	19.1
Main financial setback	Decline in sales or revenue	44	25.4
	Debt or repayment difficulties	46	26.6
	Loss of investment or working capital	29	16.8
	Loss of major customers or contracts	28	16.2
	Unexpected expenses or external economic shocks	26	15.0
Current business status	Operating without major changes	73	42.2
	Operating after restructuring or substantial changes	100	57.8

Cronbach's alpha was used to evaluate the internal consistency of the three study constructs. All three scales showed acceptable internal consistency, as shown in Table 2. Adjusted correlations between items and totals were positive for all entries. Deleting any single item did not improve the relevant alpha ratio. For subsequent analysis, all 12 measurement points were therefore retained.

The descriptive statistics show that structural instruments were close to the scale midpoint, with variation in respondents' assessments across all three measures. The reliability results support using composite estimates for correlation and regression analyses. Internal consistency alone does not determine construct validity or confirm the empirical specificity of the constructs.

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Table 2. Reliability and descriptive statistics

Construct	Items	Cronbach's α	Mean	SD	N
Learning from entrepreneurial failure	4	.837	2.978	1.194	173
Financial resilience	4	.818	3.094	1.144	173
Business recovery	4	.807	2.883	1.142	173

The Pearson correlation analysis examined the relationships between learning from entrepreneurial failure, financial resilience, and business recovery. As reported in Table 3, all 3 pairwise relationships were positive and statistically significant.

Entrepreneurial failure experience showed positive links to business recovery, and financial resilience also showed positive links to recovery. The two independent variables were positively correlated. The correlation between learning from entrepreneurial failure and business recovery was larger than the correlation between financial resilience and business recovery.

These findings initially support the proposed relationships. However, the correlations are bivariate and do not account for the simultaneous contribution of both predictors. Consequently, we conducted multiple regression to examine their unique statistical associations with business recovery.

Table 3. Pearson correlations

Variable	Learning from entrepreneurial failure (FL)	Financial resilience (FR)
Financial resilience (FR)	.315**	1
Business recovery (BR)	.378**	.282**

Note. **p < .01; all three off-diagonal correlations were significant at p < .001 (two-tailed).

4.4. Multiple Regression Analysis

Multiple linear regression was performed to assess whether learning from entrepreneurial failure and financial resilience were associated with business recovery when both predictors were included simultaneously. The overall model was statistically significant and explained 17.2% of the variance in business recovery (Table 4). This indicates that the two predictors had jointly contributed to recovery's statistical prediction, though a significant share of the variation remains unexplained.

Learning from entrepreneurial failure was positively and significantly associated with business recovery after controlling for financial resilience. The resilience account was also positive, and learning from entrepreneurial failure was statistically significant after controlling for it. This shows how each predictor contributed unique information to the model.

The standardized coefficient for learning from entrepreneurial failure was bigger than that for financial resilience, suggesting a greater conditional association with business recovery in that sample. Because the study used an observer survey, interpret these coefficients as associations rather than causal effects.

The collinearity statistics revealed no problematic multicollinearity among predictors. The inflation factor values for both differences were close to one, indicating that excessive overlap between the two predictors would probably not affect the coefficient estimates.

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Table 4. Multiple regression predicting business recovery

Predictor	B	SE	β	t	p	95% CI for B	VIF
Constant	1.412	.268	—	5.271	< .001	[.883, 1.941]	—
Learning from entrepreneurial failure (FL)	.307	.070	.321	4.364	< .001	[.168, .446]	1.110
Financial resilience (FR)	.180	.073	.180	2.453	.015	[.035, .325]	1.110

Model statistics: R^2 = .172; adjusted R^2 = .162; F(2, 170) = 17.658, p < .001; standard error of the estimate = 1.045.

Table 5 summarises the hypothesis-testing results, and multiple regression analysis supported both hypotheses. Entrepreneurial failure is positively associated with business recovery after accounting for financial resilience, supporting H1. Financial resilience was also positively associated with business recovery after accounting for learning from entrepreneurial failure, which supports H2. Overall, these findings suggest that both the ability to learn from financial setbacks and the capacity to manage financial problems are relevant correlations of business recovery among the studied small business owners. Learning from entrepreneurial failure demonstrated the stronger standardized association in the estimated model.

Table 5. Summary of hypothesis testing

Hypothesis	Proposed relationship	Standardised β	p	Decision
H1	Learning from entrepreneurial failure is positively associated with business recovery.	.321	< .001	Supported
H2	Financial resilience is positively associated with business recovery.	.180	.015	Supported

Note. Decisions are based on the simultaneous multiple regression model. The findings indicate statistical associations and should not be interpreted as evidence of causality.

5. Discussion

This study's findings indicate that learning from entrepreneurial failure and financial resilience are positively related to business recovery among small-business holders who have experienced financial failures in Hyderabad, Pakistan. The regression model was statistically significant, explaining 17.2% of the variability in business recovery ($R^2 = .172$). Both predictors played a decisive role in the model, although learning of entrepreneurial failure showed a more standardized association. These findings indicate that recovery reflects both the competence to learn from previous setbacks and the perceived ability to address financial challenges. An unexplained difference, however, suggests that recovery differences may also reflect other factors, including access to finance, market conditions, management opportunities, and external support. Entrepreneurial failure learning was positively and significantly associated with business recovery ($\beta = .321, p < .001$).This finding is consistent with experiential perspectives, which stress reflection on business experiences and how lessons can be applied to subsequent decisions (Cope, 2011; Politis, 2005). Entrepreneurs who recognize the weaknesses behind financial setbacks are better positioned to identify risks, rethink ineffective practices, and adapt their business activities. This also aligns with research showing that entrepreneurial failure can generate learning, with benefits depending on how entrepreneurs interpret their experiences and respond (Shepherd, 2003; Ucbasaran et al., 2013). The systematic review also highlighted the

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importance of understanding how experience relating to failure transforms into capable knowledge (Lattacher & Wdowiak, 2020). The current conclusions add to this discussion by noting that the learning message from failure relates to recovery within existing businesses rather than to an intention to establish another enterprise.

Financial resilience also showed a positive association with business recovery ($\beta = .180, p = .015$) and supported H2. Although the standardized coefficient for failure was smaller than that for learning, financial resilience remained statistically significant when both predictors were included in the regression model. This suggests that resources and adaptive capabilities in SMEs are key to responding to adversity (Mohamed Senin et al., 2024). The recent umbrella survey also stressed the role of organizational characteristics, crisis preparedness, and crisis management strategies in SME resilience (Koporcic et al., 2026). In addition, the systematic review of financial resilience highlights the need to understand its origins and effects across contexts (Costa et al., 2023). Recent results show that owner financial resilience experience is linked to their reported business recovery in a sample of Pakistani small-business owners. However, the analysis does not identify specific financial practices or resources that lead to better recovery outcomes.

The relative strength of the two predictors provides additional insight. Learning failure had a larger standardized coefficient than financial resilience, suggesting that respondents' ability to understand and apply lessons from setbacks was more strongly associated with recovery in this sample. One possible interpretation is that when owners must adapt their businesses after financial troubles, recognizing weaknesses and improving choices can be particularly relevant. This interpretation aligns with research emphasizing the importance of translating failure experience into knowledge and further action (Lafuente et al., 2025). However, the difference in coefficients should not be interpreted as proving that learning is universally more important than financial resilience. Self-reported scales measured predictors, and other factors not included in the model can also affect recovery.

In particular, the findings for Pakistan, where the current entrepreneurial learning study was investigated according to business failure, are relevant. A 2026 study of 318 Pakistani entrepreneurs found that learning from failure was linked to the re-imposition of intentions, emphasizing the relevance of learning in subsequent decisions after entrepreneurial failure (Iqbal et al., 2026). This study will consider a different outcome: recovery within the current business rather than the intention to create a different enterprise. This distinction extends the discussion of entrepreneurship to failure, without linking the two outcomes. Research on entrepreneurial failure and rebound also underlines the need to integrate the causes, experiences, and implications of failure into the explanation of entrepreneurs (Rawal & Sarpong, 2024).

Interpreting these findings should consider several limitations. The purposive sample of 173 business owners of Hyderabad limits generalization to other sites and to business populations. While self-reported measures can be affected by response tendencies, the cross-sectional design does not capture the sequence of events or causality. The model showed that additional factors explain 17.2% of the variance in business recovery. Future studies could explore access to finance, business age, industry conditions, and external support, and use longitudinal data to estimate changes in recovery over time. The findings generally confirm that learning from entrepreneurial failure and financial resilience are relevant and show that business recovery is a multifaceted outcome requiring further study.

6. Conclusion

This study examined the relationships between learning from entrepreneurial failure, financial

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resilience, and business recovery among 173 small-business owners in Hyderabad, Sindh, Pakistan. The results show that these two factors are positively linked to business recovery and learning from failure, indicating a stronger relationship. These findings underline the relevance of reflective learning and financial resilience in understanding how entrepreneurs respond to financial setbacks. The study provides context-specific evidence on recovery within existing businesses and distinguishes this outcome from entrepreneurial reentry. However, the cross-sectional design, purposive sampling, and limited geographical coverage restrict causal interpretation and generalizability. Future studies using longitudinal data and larger samples could explore how these relationships have developed across sectors and economic contexts.

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