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## THE EFFECTS OF THE FEAR OF FAILURE ON THE SUCCESS IN THE BUSINESS ENVIRONMENT

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### Abstract

The authors start from the idea that entrepreneurial success is the result of a complex process that involves different experiences, some of them negative, associated with failure. In this context, the goal of this research is to examine through a behavioral model, the process of business evolution from failure to success. A set of economic and non-economic factors that influence the entrepreneurial environment is presented. By using partial observation of statistical data from 20 Member States of the EU, collected from a secondary source - Global Entrepreneurship Monitor 2018/2019, the authors conduct, through a descriptive research, an analysis of the fear of failure, as the main obstacle to business survival in any entrepreneurial ecosystem. The results of the study reflect the negative relationship between the exogenous variable, fear of failure (FFR) and the two endogenous variables that express the entrepreneurial success – the rate of starting a new business (TEA) and the rate of creating new jobs at 5 years (HJCE).

### Keywords

Success, bankruptcy, opportunity, fear of failure, failure, experience, business environment

### JEL Classification

G33, L25, L26, M 21

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### Introduction

The entrepreneur is a person who identifies an opportunity - which others have not noticed - and turns it into a business. In principle, he rejects the security offered by the workplace in a large organization, innovates, creates value, thus accumulating capital. Just accumulating capital is not a sufficient motivation for starting a business. Success, however, can be a much stronger motivation! The approach is based on factors that go beyond income and wealth. If you have money it does not mean that you are successful. Success is a journey!

(Taşnadi & Paicu, 2011). Success is the motivation of the ambitious. It includes, at the same time, freedom of action, the possibility to enjoy the intrinsic characteristics of the work (Nielsen & Sarasvathy, 2011), the feeling of professional achievement, intellectual stimulation, recognition from society.

Often, the path to business success is fraught with defeat. Failure is a difficult event, which may be complicated to manage, but at the same time a valuable experience for an entrepreneur (Atsan, 2016, Cope, 2011). In this research, we review the series of factors that influence the outcome of the entrepreneurial actions, paying a special attention to the extra economic variable, fear of failure.

### **Entrepreneurial action between failure and success**

"Most of you will fail, will be treated with contempt, will be thrown into poverty, but we are grateful for the risks you take and the sacrifices you make for the sake of the economic growth of the planet and for removing others from poverty "(N.N. Taleb).

According to statistics, the survival rate of small, newly established companies gravitates, after five years, around 50%, globally. Only a third of them continued to exist after 10 years. This is not an encouraging image of entrepreneurship! So how can one explain that one in ten adults is keen on pursuing the entrepreneurial dream? Studies show that those who start their first business are, in general, individuals with a propensity for risk, open to experimentation, emotionally stable (Kerr et al., 2017), capable of recognizing or discovering and exploiting opportunities (Shook et al., 2003; Valliere, 2015).

Turning a non-entrepreneur into an entrepreneur is a progressive process achieved through several successive steps, some of which may be wrong. Thus, failure is a result of the accumulation of erroneous decisions, in different contexts. However, the experiences of the entrepreneurs show that the attitude towards failure can be a significant intangible asset, as long as it is properly capitalized. As we have mentioned earlier, most of those who went through a first failure leave the business world, if the failure is related to negative emotions (grief, sorrow). Metzger, 2007, considers that the probability of failure is higher for entrepreneurs who have closed a previous business through a failure. If it is associated with a state of optimism and appreciated as an opportunity - as an "instrument of learning" (Nielsen & Sarasvathy, 2011), failure increases the chances of starting future entrepreneurial actions.

According to the principles of behavioral economics, both failure and success can be understood as evolving processes. Entrepreneurial ecosystems are created and start to develop at the beginning of new start-up businesses. In Romania, over 10,000 small businesses, with an individual value of 42,000 euros, were financed in 2019, through a National Program. Until success is achieved, a chain of "intermediary processes" is running successively. We can look at the entry into the entrepreneurial ecosystem, by using two coordinates:

- evolution from trial (start) -  $i_k$  to success -  $S_t$ , where  $k$  - is the number of intermediary processes;

- the average life of the business in the ecosystem, which on average is 5 years;  $t$  - represents the number of years in which the business lives, survives in the ecosystem (between 3 and 5 years).

In the "intermediary processes" we will consider the following variables:

- $E_k$  – failures recorded,  $k = 1, 2 \dots n$ , of different durations;

- $R_k$  – reactions to the entrepreneur's state of failure;

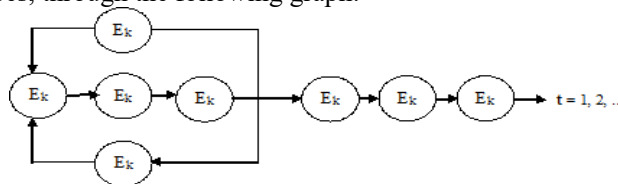
- $I_k$  – the learning process after each failure  $k$ ;

- $X_k$  – the experience gained after each failure  $k$ ;

- $O_k$  – the opportunities that come after each failure;

$P_k$  – perseverance to resume business from the beginning ( $i_k$  – the initial state). We can identify in the "intermediary processes" pairs such as  $(I_k, X_k)$  - learning from mistakes and acquiring experience. Learning processes can be modeled with dynamic Markov Chains, using specific mathematics. Closely related to reactions to failure ( $R_k$ ), there are opportunities ( $O_k$ ) to change the course of business, which must be identified. Thus, pairs  $(E_k, R_k)$  or  $(E_k, O_k)$  appear.

The accumulation of experience implies the assimilation of both theoretical and practical knowledge. Victor Hugo said that man is an ellipse with two centers: ideas and practices. The combination and accumulation of knowledge and experience is recorded in a leap such as:  $X_{k+1} > X_k$ , which derives from  $I_{k+1} > I_k$ . The courage and the risk-taking attitude make the entrepreneur persevere, starting from the beginning ( $i_k$ ). In this view, we can represent the process of business evolution, even when dealing with unavoidable obstacles and circumstances, through the following graph:



**Fig. no. 1 Evolution of failures recorded so as to achieve success**

Source: own research, 2020

Numerous research papers that have addressed over time the topic of business failure have focused on the factors that can decide:

- the result of an entrepreneurial action;
- the future direction of an entrepreneurial action;
- density of entrepreneurial actions.

From the analysis of the literature flow we can identify a succession of economic and noneconomic factors, presented in table 1:

**Table no. 1 The series of factors that guide entrepreneurial action**

The type of factor	The factor	Study
External macroeconomic factors	legislative system	Barkhatov et al., 2016
	bureaucratic system	
	corruption	
	fiscal policies	Atsan, 2016 Henrekson & Sanandaji, 2008
	interest rate	Gaskill et al., 1993
	economic timing	Lussier & Corman, 1996
	structure of the industry in which the organization operates	Gaskill et al., 1993 Metzger, 2007 Lussier & Corman, 1996
	labor market regulation	Landier, 2006
Internal economic and extra-economic factors	excessive indebtedness	Atsan, 2016,
	social capital	Atsan, 2016, Nielsen & Sarasvathy, 2011 Everett & Watson, 1998 Lussier & Corman, 1996

Internal economic and extra-economic factors	person demographics (gender, age, urban area)	Nielsen & Sarasvathy, 2011 Lussier & Corman, 1996
	entrepreneurial ability/intensity	Gaskill et al., 1993
	previous entrepreneurial experience/previous occupation	Nielsen & Sarasvathy, 2011 Eurostat
	educational background	Lussier & Corman, 1996
	start-up motivation	Eurostat
	management skills / management's ability	Everett & Watson, 1998 Gaskill et al., 1993 Lussier & Corman, 1996
	fear of failure	GEM, 2019
	capacity to perceive opportunities	Mitchell & Shepherd, 2011 Cacciotti & Hayton, 2019
	permanent connection to demand agents and to the competition	Mullins, 2010
	lack of financial resources	Atsan, 2016
	poor financial planning/excessive indebtedness	
	overconfidence	
	excessive risk taking/risk aversion	Atsan, 2016 Landier, 2006

Source: own research, 2020

Lussier & Corman (1996), Marom & Lussier (2014) appreciate in their studies that there is no unitary approach on the significant variables that lead entrepreneurial action to success or failure. Different opinions do not mutually exclude each other, but rather offer interpretations from other points of view on the circumstances that decide the entrepreneurial outcome. However, the fear of failure tends to impose itself as an important variable that determines the behavior and the entrepreneurial results, being found not only in the studies of the researchers, but also in the official statistics (Eurostat, Global Entrepreneurship Monitor), governmental reports, political exposures.

**Fear of failure - incentive or obstacle to entrepreneurial action?**

Entrepreneurial behavior, as part of human behavior, is influenced by the emotions, perceptions and cognitions of the individual becoming an entrepreneur. If the record of a failure cancels the entrepreneur's perception of previous achievements and he regains little or no courage for reentry in business, then he is dominated by the fear of failure. This fear can be defined as "generalized desire to avoid failure" (Mitchell & Shepherd, 2011, Elliot & Church, 1997). Sometimes, the fear of failure can have a positive effect, in the sense that it stimulates the entrepreneur to accept the risk, the challenge, the uncertainty.

But, for the most part, the processes of creating, recognizing, discovering and exploiting opportunities are diminished by the fear of failure. It accompanies the whole entrepreneurship process. Economically, it affects present /future entrepreneurial actions and can generate cascading effects. For example, fear of losing control over the customer portfolio entails the fear of not collecting receivables that generate the fear of losing control over cash flow, and then the fear of not being able to pay obligations to employees, suppliers, state budget (taxes and taxes), fear of not being able to continue the research and development activity. At the social level, it shapes the behavior of the entrepreneur, in the sense that it manifests as a fear of loss of home or family or fear of contradicting social

norms (Cacciotti & Hayton). Psychologically, the fear of failure is fueled by anxiety or expectations that are too high. It manifests itself as fear of depreciating one's own image, of losing confidence in one's own strengths, of disappointing others, of being exposed, of having an uncertain future. It is perhaps the hardest struggle, the one with the self.

Fear of failure can have varied, dichotomous effects on entrepreneurial actions and outcomes. Here are some of them:

- Fear of failure diminishes the density of entrepreneurial actions. It can accompany any other future entrepreneurial action of an individual, in the sense that it can generate the fear of exploring other opportunities.
- Fear of failure stimulates acceptance of risk and uncertainty. It is possible that entrepreneurs who are more afraid of failure to be more attracted to riskier opportunities. Thus, it produces "unique" effects, expressed by making strategic decisions (Mitchell & Shepherd, 2011).

### Analysis of entrepreneurial actions according to the failure rate in a number of EU countries

The success or failure of the first or subsequent entrepreneurial action is, as we have explained above, influenced by the fear of failure, perceived differently, as a brake or stimulus, by different individuals. The purpose of this descriptive research is to establish a correlation between an input indicator - FFR (percentage of the population aged 18 - 64 years indicating that fear of failure would prevent starting a business) and two TEA output indicators (entrepreneurial activity total at an early stage, i.e. individuals involved in setting up a company + entrepreneurs of a company less than 3.5 years old) and HJCE (percentage of those involved in TEA who expect to create 6 or more jobs in 5 years). The statistical data used in this study are obtained from a secondary source - Global Entrepreneurship Monitor 2018/2019, by partially observing 20 states belonging to the EU, in 2015 and 2019.

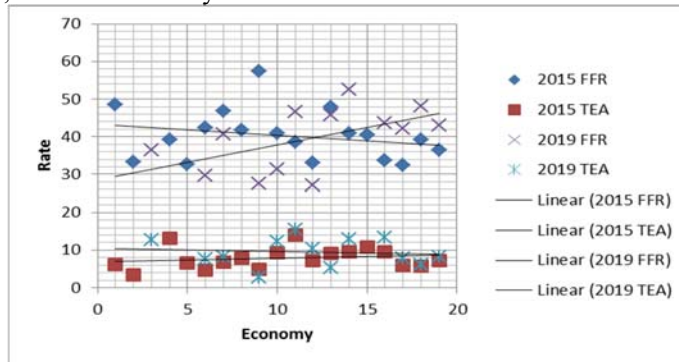
**Table no. 2 FFR and TEA in 20 EU states, between the years 2015 - 2019**

Economy	2015			2019		
	FFR	TEA	HJCE	FFR	TEA	HJCE
Belgium	48,48	6,24	19,50			
Bulgaria	33,28	3,46	7,30			
Cyprus				36,40	12,70	22,01
Estonia	39,30	13,14	30,00			
Finland	32,62	6,59	18,20			
Germany	42,29	4,70	21,00	29,68	7,63	24,32
Greece	46,86	6,75	4,30	40,62	8,22	14,75
Hungary	41,82	7,92	31,40			
Italy	57,46	4,87	5,00	27,64	2,79	12,03
Ireland	40,87	9,33	33,00	31,39	12,41	40,88
Latvia	38,60	14,11	31,4	46,59	15,43	36,3
Netherlands	33,17	7,21	21,00	27,13	10,38	18,53
Poland	47,80	9,21		45,86	5,39	
Portugal	40,80	9,49	17,1	52,59	12,89	17,33
Romania	40,49	10,83	39,80			

Slovakia	33,65	9,64	28,50	43,71	13,33	26,22
Slovenia	32,39	5,91	20,50	42,23	7,80	19,94
Spain	39,15	5,70	8,70	48,21	6,15	8,98
Sweden	36,45	7,16	16,10	42,92	8,25	14,9

Source: data gathered from *The Global Entrepreneurship Monitor, 2018/2019*

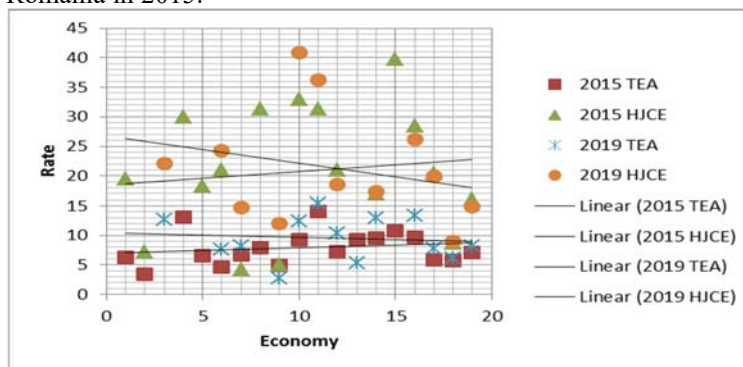
Figure 2 shows the FFR and TEA for the countries included in the sample, in 2015 and 2019. We are looking for an inverse correlation between the exogenous variable FFR and the endogenous variable TEA. It is noted that, the point of max. FFR and one of the smallest TEAs in 2015 belong to Italy. Also, high levels of FFR corresponding to low levels of TEA belong to Belgium and Greece. In 2019, the minimum TEA belongs to Italy. Higher rates of FF corresponding to low TEA values are also observed in Poland, Spain, Slovenia, Sweden and Greece. An isolated situation is present in Portugal, TEA and FFR being at a maximum simultaneously, between the analyzed countries.



**Fig. no. 2 FFR and TEA for 20 EU states in the years 2015 and 2019**

Source: data gathered from *The Global Entrepreneurship Monitor, 2018/2019*

The specialized literature leads us to the following common idea: the success/failure of a company mainly means economic performance/absence of economic performance, measured at the macroeconomic level through indicators such as employment rate, survival rate of companies after 5 years, economic prosperity. Thus, Figure 3 reflects the correlation between HJCE and TEA. It is noted that for both 2015 and 2019, the HJCE rate is higher than TEA, for all the countries included in the sample. Ireland has the highest level of HJCE in 2019 and Romania in 2015.



**Fig. no. 3 TEA and HJCE for 20 EU states in the years 2015 and 2019**

Source: data gathered from *The Global Entrepreneurship Monitor, 2018/2019*

## Conclusions

It is generally accepted on a global level that entrepreneurship stimulates competitiveness and the inclination towards innovation creates new sustainable jobs, thus generating socio-economic well-being and determining the fundamental transformation of society and civilization. Therefore, when an entrepreneur fails, his reaction to failure is important, as well as his willingness to try again, taking into account mistakes and experiences assimilated along the way. This paper focuses on one hand on the centralization of factors that show the causal link between failure/success and the influencing factors, in accordance with the relevant literature, and on the other, it makes an analysis of how the fear of failure affects indicators expressing business success/failure in 20 of the EU Member States. We consider that a generalization of the study results could be achieved by a geographical increase of the analysis sample. This research can be extended in the following directions: (1) in the form of a qualitative analysis of the effects that the fear of failure has on entrepreneurial action and its results in Romania, in the context of the economic crisis generated by the COVID-19 pandemic; (2) in the form of a quantitative analysis through econometric models, starting from the hypothesis that several factors consecutively influence the result of entrepreneurial actions.

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