

A behavioral model of failure in business

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Abstract. *The authors start from the idea that those who do not encounter any failure in their business are not real entrepreneurs. Using a causal determinism type of analysis, we identify the factors that lead towards failure and the stages of its development. At the end, we present a couple of reflections regarding the regaining of moral by the entrepreneur after failure.*

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*“Failure should be a teacher, not a gravedigger.
Failure means delay, not defeat. It is a temporary detour, not a dead end.”*
John Maxwell

Business failure is part of the path to success. As a result, it naturally occurs. It is said that 9 out of 10 new businesses meet with failure in the first five years since their onset (Kiyosaki, 2018). Is it daunting?

It depends on the attitude of the entrepreneur. Different surveys show that there is no real entrepreneur who would not have faced a failure. A healthy attitude towards it has made him learn from mistakes, from the lessons he has received. In this way he gained more experience. He grew up. He notices better what are the new opportunities after his moral restoration. In any case, failure is an ingredient of success. There is a strong link between risk and gain, especially in the business environment.

If you met with failure, do not look for excuses in the inevitable circumstances. For example, to blame others. If you are a follower of “the excuses trend”, you would better give up being an entrepreneur. Always, a real entrepreneur has the power to discover and see his own mistakes. Moreover, he will learn from them in order not to fall into the same kind of harmful decisions. As a result, we could say that failure is not essential for the entrepreneur, but what he does immediately after he realizes it and has to make a decision in the new conditions of reality.

1. Hard to overcome: fear of failure

If an entrepreneur is convinced that he must be all-knowing, totally competent and able to achieve his goals, it means that he is dominated by the fear of failure. This fear will follow him alongside his presence in the business environment.

Entrepreneurs who are afraid consider that they are only valuable when they obtain achievements. When they record failures, they consider themselves worthless. They forget about past achievements and regain the moral with difficulty after failure.

This belief that an entrepreneur is valuable only he obtains success is false, irrational. There are some arguments through which we can reject it:

- a) The permanent chase after long-term success is inconvenient because it assumes (physical and mental) efforts which exceeding certain limits bring the entrepreneur into a state of exhaustion. He becomes a workaholic, distances himself from the family and forgets to live, to enjoy life.
- b) The competition for success reflects the entrepreneur’s desire to overcome others. He may come to the conclusion that he is worthless in comparison with others in the same sector in which the competition takes place.
- c) The intense desire to achieve success generates anxiety. The entrepreneur is afraid of taking risks. He will not accept the idea that failure is a step towards success. He did not reflect the well-known quote of the famous scientist Albert Einstein, *“failure is success in progress”*. As such, failure can be the road opener to success. It means *“delay, not defeat”*, as John Maxwell says.

Fear of failure spreads in two directions:

- To ourselves (To).
- Compared to others (Tc).

Following the first direction (To), fear that we will lose confidence in our own forces will be installed. The toughest fight we carry is with ourselves.

The fear acquired by following the second direction (Tc) is tougher. As such:

$Tc > To$

This is because no one is accompanying or appreciating a business entrepreneur who fails in the business world. A competitor will not want to be in the place of the one who fails or is identified with such a model. In any area of the business environment, entrepreneurs would like to identify with successful people.

A study made by the Insolvency House in Transylvania shows that 92% of the businessmen who have gone through a failure are withdrawing from the entrepreneurial activity. The vast majority of those who experienced a failure at the first attempt are afraid to try again. It all depends on their attitude towards failure.

If they looked at it as a step towards success, as a lesson in which they gain experience, these entrepreneurs would know how to stop repeating mistakes and create sustainable business.

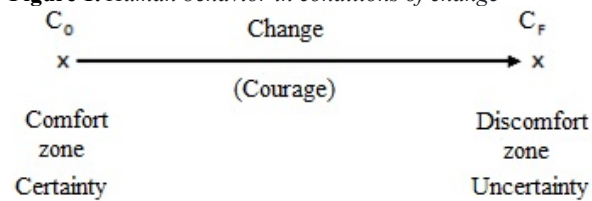
Another study made by Gallup International shows that the most important component of successful entrepreneurs' actions is perseverance. They take advantage of the lessons of failure having the ability to turn failure into an opportunity to grow their business.

2. A causal chain of entrepreneurial behavior

Every mistake accumulated on the way where we get where we want is a step towards success. This is best remarked in the research programs conducted by scientists. Any "mistake" means progress. They are guided by Edison's principle: *a mistake is a discovery demonstrating that what we are testing does not work*. Discovering mistakes and considering their steps to success, they ignore frustration and self-satisfaction. They persist in thinking about success.

Following the same principle used by researchers, the entrepreneurs eventually arrive at the expected outcome. In this context, we ask why do entrepreneurs often fail to avoid frustration?

Psychologists say that a great part of the human behavior is determined by customs, habits (around 80%). In order to make a change (as a result of some decisions), a shift from comfort to discomfort is needed (see Figure 1).

Figure 1. Human behavior in conditions of change

Failure arises from a series of misconceptions. The causal chain that leads to failure starts from childhood, when we are told that we are not good enough, that we can't be count on, that we are not capable of anything, that we do not deserve ... As a result, we enter into a disappointment state. We have seen that nearly 92% of entrepreneurs give up fighting after the first failure. It demoralizes them. They can no longer find the power to continue to realize their dreams.

As such, fear of failure involves fear of change. In the area of discomfort (post-change) it is difficult for them to adapt or they are even incapable of doing that. The change occurs as a result of some decisions (considered good or bad). If they make a wrong choice, the entrepreneurs do not support the mistake from an emotional point of view. It's a "reaction" since childhood – when they were wrong, they were punished. So, they easily give up the decision to start a business (even through the start-up mechanism) and accepts the comfortable area (the service they have, especially in the public sector). That's not because they would not want financial independence but because they doubt that they will succeed, that they will get something better (after the change).

They prefer the comfort zone, fearing the risks. In themselves, they know what they want, but they have no courage to act or wait until they realize their dream. Preferring the comfort zone, the safety zone, these entrepreneurs compromise their own values. Each of these entrepreneurs may have doubts, disappointments, expectations, frustrations, explanations for the decision made. Everybody treats them in relation to their attitude. Everyone should learn from them. These obstacles that occur in the psychological level can be overcome.

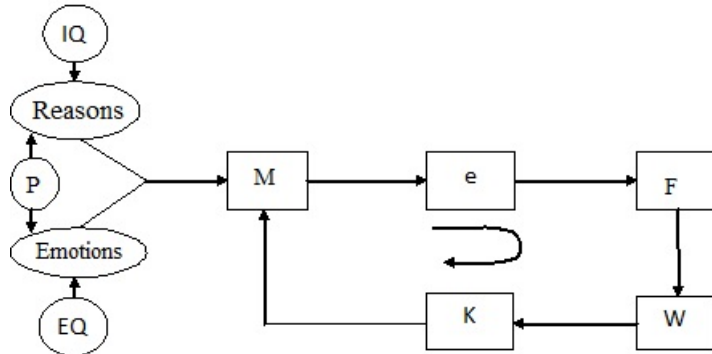
Failure, as an experience, is the best teacher, as John Maxwell said. This experience the entrepreneur cannot get by reading books, taking into account the mistakes of others, but only through action, by learning by mistake. In fact, there are no failures but lessons we learn.

Failure is not the effect of a singular event. It does not appear suddenly, but it is a result of the accumulation of erroneous decisions. The sequence of reasoning mistakes occurs because each mistake is considered to be of little importance, even harmless. The accumulation of these mistakes will cause at some point to pay the price for decisions that seemed to be of relatively small importance. Often those errors of reasoning that lead to bad decisions occur in the prosperity period. Because the immediate effects of these mistakes have no consequences that draw our attention, we risk repeating the bad decisions.

Let it be F – failure, C – the set of causes (c_1, c_2, \dots, c_n) that determines it (identified or not), e – vector of effects (e_1, e_2, \dots, e_m) generated by the "m" wrong decisions (errors), M – the vector of "mistakes" taken by entrepreneurs, $M = (m_1, m_2, \dots, m_m)$.

A graphic description of the behavioral model is given in Figure 2.

Figure 2. *The model of causal determinism associated to entrepreneurial behavior*



W – the vector of failures recorded by the entrepreneur as lessons or experiences that will be used to make corrections (K) on wrong decisions (M).

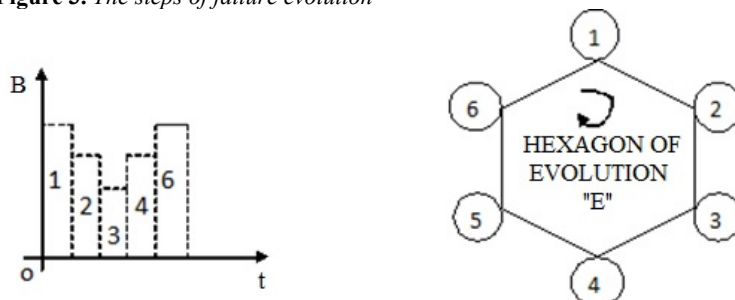
The knowledge of the entrepreneur contributes to the crystallization of his life philosophy (P) from where we can identify the rational intelligence (IQ) and emotional intelligence (EQ) indices. In many leadership papers it is shown (and demonstrated) that:

$EQ > IQ$. As a result, the psychological elements determine the trajectory of the entrepreneur’s business, also called “the hexagon of the evolution of failure”.

3. The stages of evolution

Studies on the casework of business failures have revealed some crucial elements in the evolution of failure. These elements are analyzed from the perspective of emotional intelligence that defines an often hidden structure of failure. Often the evolution of failure can be represented graphically, highlighting the transition from one stage to another. We can resort to such two intuitive representations:

Figure 3. *The steps of failure evolution*



where:
 B – the business amplitude;
 1, 2, ..., 6 – the stages of evolution;
 t – time.

In the “hexagon of evolution” the movement from 1 to 6 is clockwise. The interpretation of these two representations explains what happens when we fail:

- 1) It is the first stage we call “The attempt”. We start a business, something that motivates us to take a risk. We do not really think about the consequences. We have no fear. Enthusiasm annihilates it. The entrepreneur is living this new challenge in his life. But it is also the step categorized in a possible failure as a “scapegoat”. Because of the enthusiasm and the beginning of euphoria, we believe that we have met with failure. And the fact that we tried something new, feeling good, does not entitle us to blame us later.
- 2) It is the step called “The awakening”. Once you start your business, you find out that you have not studied the market properly, you have not placed the sales points well, that you have prepared the business plan hurry-scurry, you have not calculated the cost-income ratio in more detail ... Of course, such signals should have been included in the area of pro-active measures were, but in our enthusiasm we ignored them or did not want to see them. All this is in the vector “C”.
At this step, we see that many “M” decisions were incorrect, wrong. We realize we’ll have a series of “e” effects. It is the period of “awakening to reality”. It is the hardest to accept because we experience the business disaster, the losses, the consequences.
- 3) It follows “The retreat”. We're trying to isolate. We can't believe the result we have come to. We can exclaim, “It is not!”. We tend to deny the cruel reality. We have the impression that we have not lost the money invested and that everything will be fine. Failure has changed the polarity of reality. At this stage, where failure occurs as “a bad dream,” most entrepreneurs remain stuck. They do not have the strength to come to light.
- 4) We try to explain to others why we have hidden. We go to the “Alibis” stage. We invent excuses:
 - “I was not lucky. The crisis has just begun.”
 - “The business partner betrayed me. I had too much confidence.”
 - “The market conditions have changed.”
 - “The state changed the rules during the game.” etc.

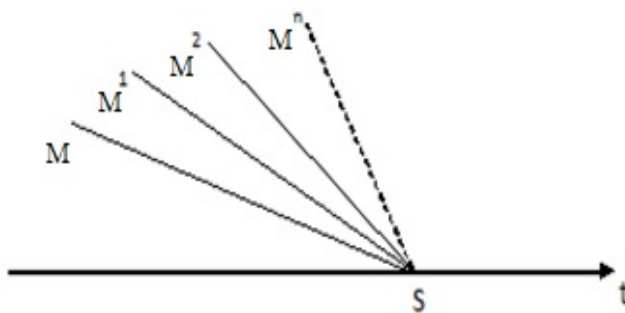
These apologies show that we are not yet ready to take responsibility for failure. You're starting to realize that the collapse would have been due to you. As surveys show, 92% of entrepreneurs stop. They do not have the power to take responsibility for the reasoning mistakes. Learning from mistakes will never happen if those who fail blame the others or the inevitable circumstances in which they decide and act. At this stage, the entrepreneurs are very creative about the multitude of excuses that underlie their failure.

- 5) It is the step where we start again, we move on. We are entering a new step: “The unlocking”. At this stage, we realize the set of “M” mistakes we made. We are ready to bear the consequences, the “e” effects of these mistakes. It is the stage where we accept failure. We take its responsibility. In order to find solutions to begin, excuses must be abandoned, and we have to believe in the certainty of the hope of realizing the dream. At this stage, the entrepreneurs are trying to get into action, even if they have not

managed to recover morally, entirely after the failure. At this stage, they analyze the lesson learned: they see what they have done wrong, perceive how misconceptions can be eradicated in the future, they start acting, they feel much better, the enthusiasm, the mood to rebuild the business “piece by piece” returns.

- 6) It is the step where the entrepreneurs say to reason: “Let’s remember”. They ask themselves: Can the same mistakes repeat in the future $M \neq M$. The business analysts respond affirmative. The learning process of mistakes is convergent, as suggested in Figure 4:

Figure 4. *The convergence of the process of learning from mistakes*



where:

$M^n < M^{n-1} < \dots < M$, and S – the point of convergence – the success.

Any successive failure means experimentation. Hence the personal development of the entrepreneurs. This convergent process requires perseverance. The entrepreneurs do not give up their dream if they go to the “alibis” stage, where most of them get stuck. When they reach stage 4, all the excuses that are said make them suspicious of others, and they condemn them. They react instinctively, as the subconscious dictates, knowing from childhood that the wrongdoer is punished. Society has taught us that we are bad (unprepared, incompetent, unworthy) and if we are wrong, we receive all sorts of punishments, sometimes even from close ones. The effect: we shut down emotionally, we turn left and return to the “comfort zone” where we have self-imposed limits.

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