

## Research Paper

## Analysis of Failure Costs of Rural Entrepreneurs in Kermanshah Township

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**ABSTRACT**

By understanding the consequences and costs of failure of rural entrepreneurs, we can be prepared for the potential failure in these businesses and avoid a social economic crisis in the villages. Therefore, the purpose of this descriptive study was to investigate and analyze the cost and impacts of failure of rural entrepreneurs in Kermanshah County. The study population comprised all failed entrepreneurs in Kermanshah County (N=110). Research samples were randomly selected using the Krejcie & Morgan Table (1970), (n=86). To collect data, a researcher-made questionnaire was used. The results show that the loss of income, personal debt, low budget, sudden decline in social status, low self-esteem, sense of stigma, feelings of sadness, blame of others as well as feeling of remorse and regret are the main costs that most entrepreneurs will endure after business failure. Regression analysis shows that variables of gender, financial status, entrepreneurial experience, employment of other businesses, participating in entrepreneurship courses, failure culture, optimism, and self-confidence are effective in reducing the cost of failure of rural entrepreneurs. The findings of this research can be useful for empowering and preparing small- and medium-sized enterprises for survival and development and strengthen the adaptability of entrepreneurs, creating proper environment for learning from failures and errors, providing scientific and practical solutions for policy making for development and sustainability of small- and medium-sized businesses and preventing them from turning into a crisis.

**Key words:**

Rural entrepreneur-ship, Failure, Financial, Social cost, Psychological cost

**Extended Abstract****1. Introduction**

**T**he value of entrepreneurship to economic development, job creation, and innovation is well documented. Yet, a significant proportion of new ventures fail. Numerous scholars have shown that business failure is generally good for the economy and society due to the release of knowledge and resources from defunct businesses, which in turn can create a fund of floating resources reintegrated into new ventures. Further-

more, business failure can lead to reduced costs for surviving businesses via vicarious learning. The first rationale for this project was the large number of failed enterprises which leave behind huge economic, political, and psychological losses. It is wise to investigate what happens for entrepreneurs when their businesses fail, what hinders them from recovery, as well as the necessities of the growth, creativity, and entrepreneurship in the community. By identifying the impacts and failure costs of rural entrepreneurs, we can be prepared for the potential failure and prevent it from turning into social and economic crisis in rural areas. The purpose of this article is to review research studies on

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business failures of rural entrepreneurs, all the way from the immediate aftermath to recovery and re-emergence. We examined the financial, social, and psychological costs of failure, as well as highlighting factors that may influence the magnitude of these costs.

## 2. Methodology

The statistical population of the study comprised all failed entrepreneurs in Kermanshah County (N=110). Research samples were randomly selected using the Krejcie & Morgan Table (1970), (n=86). To collect data, a researcher-made questionnaire was used. It comprised three parts: the first part consists of demographic characteristics of respondents; part two examines the types of failure costs (financial, social, and psychological) of rural entrepreneurs; the third part examines the factors affecting the failure cost of rural entrepreneurs. To measure the content validity, the questionnaire was delivered to the seven experts in the fields of entrepreneurship, rural development, management and rural sociology. After experts' revisions, the validity of the questionnaire was confirmed. The reliability was calculated through Cronbach  $\alpha$  test. The  $\alpha$  coefficients were calculated for different variables of questionnaire which were between 0.79 and 0.91, indicating its suitability for collecting data.

For descriptive analysis, the mean and standard deviation were calculated. For inferential analysis (according to objectives of the research and considering the scale of variables), multiple regressions were used. In this analysis, the dependent variable is the costs of failure and the independent variables are the financial situation of entrepreneurs, their engagements in other businesses, gender, entrepreneurial experience, confidence, culture of failure, participating in entrepreneurship courses and optimism. It is worth noting that the variables of gender and employment to other businesses were virtually entered into SPSS.

## 3. Results

The results show that the loss of income, personal debt, low budget, sudden decline in social status, low self-esteem, a sense of stigma, feelings of sadness, blame of others and feelings of remorse and regret are the main costs that most entrepreneurs after the failure of business would have reported them. However, these costs could have implications for entrepreneurs. Regression analysis showed that gender, financial status, experience of entrepreneurship, employment in other businesses, participating in entrepreneurship courses, culture of failure, optimism and confidence variables that are effective in reducing the failure cost of rural entrepreneurs. In addition, the financial

condition is variable that has the greatest effect on reducing the failure cost of rural entrepreneurs.

## 4. Discussion

The effects of business failure on the individual entrepreneur, however, are more complex and arguably paradoxical. While failure may lead to a potentially valuable learning opportunity for the entrepreneur who founded the failed business, it may also be an emotional and traumatic experience that obstructs learning. If the costs of failure (i.e., financial, social, and psychological) are too high compared to the benefits of learning from failure, entrepreneurs may choose to abandon their entrepreneurial careers. In such a situation, both the entrepreneur and society may lose out.

The entrepreneurs who had better financial condition and welfare, are able to absorb the costs of failure easier than others. People who have considerable personal investments and savings were less engaged in financial, social, and psychological costs of failure.

## 5. Conclusion

The results of this research can be helpful for empowering and preparing small- and medium-sized enterprises for survival and development and strengthening the versatility of entrepreneurs, creating proper environment for learning from failures and errors, providing scientific and practical guidelines for policy making of development and sustainability of small- and medium-sized businesses. The results of this research will help policy makers to prepare the conditions that a business failure receive less negative implication and enact laws to reduce the damage of bankruptcy.

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## Conflict of Interest

The authors declared no conflict of interest.