A Conceptual Model and Hypothesis of Firm Bankruptcy: A Romanian Case Study

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Abstract

This paper employs a unique approach in studying firm bankruptcy and presents a conceptual framework that identifies several variables that may predict a firm's bankruptcy. Past research has identified entrepreneurs' personality and behaviour (self-efficacy, locus of control and risk-taking), business management knowledge, past entrepreneurial experience, firm undercapitalization, financial literacy and entrepreneurial education, existing entrepreneurial culture, and institutional support as key factors.

To differentiate Romanian entrepreneurs from others, this study proposes nine hypotheses for testing. Quantitative methodology is chosen to best serve this study's objective of making bankrupt entrepreneurs heard and to bring in economic and legal changes that will decrease bankruptcy in Romania.

Keywords: *entrepreneurs' personality, business knowledge, entrepreneurial culture, institutional support*

JEL: A13, C30; D73, G33, I23, M21, P37

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Introduction

Scholars agree that entrepreneurship contributes undeniable economic and social benefits to a nation; meanwhile, bankruptcy is intimidating, and hinders entrepreneurial intentions. This study sheds new light on the problem of firm bankruptcy, aiming to 'overcome the limitation of the neoclassical theory of entrepreneurship' (Melek & Canani, 2012:4). Scholars have identified common factors that influence the entrepreneurial process as well as entrepreneur behaviour that leads to firm bankruptcy, which require systematic analysis (Bradley & Cowders, 2004; Nor, 2012; Khelil, 2016). The complex approach of this study facilitates the identification of various factors that influence bankruptcy in Romanian companies and elaborates a framework for analysing these.

The research question emerging from the literature is, 'what happens if we do not take these factors into account?' The first answer comes from the Romanian Ministry of Justice National Office of the Trade Register, which reports that in the first seven months of 2021, 4 545 companies went bankrupt, and 26,034 were deregistered, and these numbers are rising. The literature reveals that usually 'the success rate for start-up and sustained [business rate] is constantly below four per cent' (Nor, 2012:317). In the United States (US) the Small Business

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Administration Office of Advocacy reported in 2020 that ‘Nine out of ten new businesses fail within the first year’ (Schermerhorn and Bachrach, 2021).

Business failure is common, with severe and disruptive effects. For instance, Enron’s failure in 2001 raised concern about managers’ ability to implement quick and appropriate remedial procedures to avert the company’s financial collapse, which in the end affected the entire world. Concurrently, small and medium enterprise (SME) managers’ abilities to react to threats are considerably abridged as they have insufficient financial resources, lack borrowing power and appropriate managerial knowledge.

Companies’ managers ‘need to recognise the early signs of business failure before it is too late’ (Melek & Canani, 2012:4), as the entrepreneur/manager alone is responsible for finance, sales, supply and investment policies (Thomas et al., 2000). However, deficiencies in entrepreneurs’ management knowledge and skills inexorably lead to severe and unpredicted problems that significantly reduce new ventures’ chances of remaining sustainable, and they may then enter bankruptcy.

Examining the Romanian literature, a significant issue emerges related to entrepreneurs’ understanding of uncertainty and risk associated with creating and running a new business. Many emerging entrepreneurs act on instinct, which may be correct at the time, but as the business environment frequently and dramatically changes, they are quickly in trouble. Therefore, recognising early business threats creates a competitive advantage.

Definition of business failure: Bankruptcy

There is no agreement over the meaning of ‘business failure’ (bankruptcy), as each discipline has different views, using various terms, such as ‘organisational collapse’ (Rudolph, 2002), ‘organisation mortality, exit or death’ (Daepp, et al., 2015), ‘bankruptcy’ (Hart, 2000), ‘decline’ (De Fontenay, 2016) and ‘insolvency’ (Dăianu, et al., 2004). This study adopted the term ‘bankruptcy’, as it is commonly used in management analysis.

A similar situation exists in Romania as the meaning of bankruptcy emerges from legal practice as ‘firms are unable to continue their activity due to lack of financial resources and to fulfil their financial liabilities in paying their creditors, is in the insolvency stage’ (Munteanu & Cavaropol, 2017:12). The methodology for analysing bankruptcy *per se* is inconsistent, as there are different views between specialists in different research areas (Dăianu et al., 2004).

Although Romanian legislation provides the framework necessary to apply correct economic policy, practitioners’ experience reveals that the ‘Bankruptcy law in Romania focuses mostly on the bailout policy of state-owned enterprises’ (Dăianu, et al., 2004:.6), and somehow does not tackle certain entrepreneurial behaviours. Other practitioners view bankruptcy as related to risk management (Munteanu & Cavaropol, 2017). Several government agencies are working on aligning the Romanian bankruptcy legal framework with that of the European Union (EU).

Entrepreneurs' personality, behaviour and venture bankruptcy

Academics agreed that entrepreneurship is an interdisciplinary concept (Stephan & Drencheva, 2017; Blaga, 2021), covering the field of economics, sociology, psychology and management. Psychological studies on entrepreneurship began well before other approaches were adopted. Studies of entrepreneurs' behaviour have enhanced and detailed the concept, giving it a broader perspective. Few individuals possess the psychological characteristics that make entrepreneurship a choice (McClelland, 1965). Entrepreneurs have particular traits that operate as a unique system, acting at the interface between an individual's business actions and the outcomes of their firm, with either positive or negative effect.

Several researchers (Schultz & Schultz, 2005; Walsh & Cunningham, 2016) confirm that analysis of entrepreneurs' traits assists the search for bankruptcy signals. According to Melek and Canani (2012:6), 'understanding the entrepreneurship process depends on analysing and determining entrepreneurial qualities and common traits of entrepreneurs', and therefore the aim of this analysis links entrepreneurs' traits to the possible negative performance of new ventures, which in extreme cases, lead to bankruptcy.

'Failing entrepreneurs' behaviour has been classified by Khelil (2016:75), as 'confused', 'supported at arm's length', 'megalomaniac', 'dissatisfied lord' and 'big-time gambler', which seem to cover all failing behaviours. However, 'supported at arm's length' underlines the effect of the environment on firm bankruptcy, with the other factors an individual's business behaviours that seem to negatively influence the survival of a new venture (Schultz & Schultz, 2005). These behaviours are the subjects of psychological theories including ambiguity tolerance theory, disagreeableness theory and impulsivity theory. Based on these views, we propose to test the following research question:

RQ: What factors push Romanian companies into bankruptcy?

Entrepreneurs' self-efficacy and firm failure

Bradley and Rubach (2004:209) define failure as a stage when 'the organization stops performing those functions that are expected of it.' Literature on individuals' entrepreneurial behaviour and business failure is scarce in Romania (Munteanu & Cavaropol, 2017). 'Self-efficacy is a cognitive construct that describes a person's confidence in their ability to perform tasks' (Cassar & Friedman, 2009:2), such as creating a successful company. Emerging from psychology, self-efficacy theory has revealed that a high perception of self-efficacy increases risk-taking, while a low perception of self-efficacy may diminish entrepreneurial initiatives, to lower the associated risk (Cassar & Friedman, 2009).

Few studies have examined entrepreneurs' self-efficacy in business failures and the actions required during their ventures.

Management scholars suggest that business failure is caused by extreme (high or low) perception of self-efficacy (Cassar & Friedman, 2009) in dealing with 'decisions in management, marketing, finances due to undercapitalisation, loss of a key person, lack of planning, illness, trade credit, lack of technology, tax burdens and regulations, poor location, personal issues, and natural disasters' (Bradley & Cowders, 2004:211). Based on the above evidence, we elaborate the following hypothesis for Romanian entrepreneurs:

H1: Entrepreneurs' extreme perceptions of self-efficacy cause business bankruptcy.

Entrepreneurs' locus of control

The definition of this concept provided by the Oxford Dictionary of Psychology (Colman**,** 2015) states that 'Locus of control is a psychological concept that refers to how strongly people believe they have control over the situations and experiences that affect their lives.' Rotter (1966:11) stated that 'people who have an internal locus of control are more aware of the opportunities around them to achieve their goals and get into action to improve their environment.' These people feel that they are in control of their lives, and only their decisions affect their actions; hence, they are more careful in their decision-making. Therefore, they are more 'active and more successful', as they are more resilient and motivated in comparison to entrepreneurs who exhibit a high external locus of control, defined as an individuals' belief that they are not in control of their actions and the outcomes depend on external power (God, destiny, chance, or powerful others; Rotter, 1966). These individuals are passive and do not take initiatives to prevent their 'destiny' (bankruptcy). An internal locus of control is a predominant attribute of entrepreneurs (Spector, 1982). Korkmazyürek et al. (2008) state that entrepreneurs displaying a strong internal locus of control are more focused on opportunities, have greater tolerance of risk and favour modernisation. Hence this may be a prerequisite for preventing bankruptcy.

The Romanian literature on entrepreneurship reveals little academic research has been undertaken investigating entrepreneurs' locus of control (Vodă & Florea, 2019; Luca & Cazan, 2011; Popescu, et al., 2016), focusing only on students' entrepreneurial intentions and remaining silent in regards to established entrepreneurs and particularly venture bankruptcy. Therefore, we proposed the following hypothesis:

H2: The entrepreneur's internal locus of control leads to firm bankruptcy.

Risk-taking propensity

Risk-taking is a complex psychological concept that depends on multiple variables. In the field of entrepreneurship, 'economic decisions can lead to financial success or ruin, psychological pleasure or addiction, and social rejection or adulation' (Paulsen et al., 2012:2). A 'risk-taking personality' refers to an individual who is quick to engage in risky opportunities, as they have a strong internal locus of control and feel competent when dealing with uncertainties (Mwiya, 2014), as they anticipate financial success and social adulation, which gives them much pleasure.

Success is contagious, and over time many entrepreneurs overestimate their abilities to assess risk. Any incorrect assessment of the level of risk they accept, together with other endogenous and exogenous factors, may lead to an overestimation of their capabilities. This creates overconfidence and may lead to the acceptance of substantial debt, which ultimately results in bankruptcy. These elements are all strong bankruptcy signals (Paulsen et al., 2012), which most entrepreneurs are unable to see, or refuse to see, which if detected at an early stage and managed appropriately may prevent bankruptcy.

These factors do not act alone, and in combination may be fatal for any business venture. If we add other contributing factors, such as lack of business management knowledge, we have a clear recipe for bankruptcy, and Romanian entrepreneurs are no different to others in this case. Therefore we propose the following hypothesis:

H3: A high risk-taking personality leads to firm bankruptcy.

Business management knowledge and skills and firm bankruptcy

Assessment of the entrepreneurial narratives reveal a significant gap in analysing the grounds for failure in new ventures, with the primary focus being on sustainable venture development. This study fills this knowledge gap by demonstrating that the variables assessed constitute valuable signals, and if promptly identified and acted upon, may prevent bankruptcy in new ventures. Identifying these endogenous variables is the responsibility of the entrepreneur/manager. Failure to act to mitigate these factors may well lead a firm to bankruptcy (Paulsen et al., 2012).

Past entrepreneurial experience

In Western cultures, entrepreneurship and firm performance have been subject to extensive analysis, from the time of Adam Smith (1901), up to Venkataraman (1997) and Bradley and Cowders, (2004). The literature reveals unremitting progress in the business research framework, which has led to improved entrepreneurial policies, new venture creation and an understanding of the risks associated with venture bankruptcy (Cassar, 2007; Khelil, 2016) that advance entrepreneurial practice. However, in the West, prospective entrepreneurs are more easily able to gain the entrepreneurial experience imperative for the success of new ventures Lafuente et al., (2021).

The importance of past entrepreneurial experience emerges from the economic change theory (Winter, 2003). Past entrepreneurial experience embeds 'procedures or decision rules that promote the survival of their [entrepreneur's] "career" in a changing environment' (Winter 2003:994). An entrepreneur's past experience can be applied when solving challenging problems or for innovation in creating new products and services.

The historical development of entrepreneurship and the creation of an entrepreneurial economy in Romania is limited and difficult to analyse due to its complexity, 'as a combination of factors that play a role in the development of entrepreneurship; (Gnyawali & Fogel, 1994:44). In Romania, the development of entrepreneurship followed Western European trends until World War II. After that, communism took over the country, and entrepreneurial activity was forbidden. The communist legacy left behind vague traces of an incipient entrepreneurial spirit. After Romania's affiliation to the EU, entrepreneurship received increasing attention from the Romanian government, the EU, and various NGOs (Dăianu et al., 2004). Therefore, the entrepreneurial experience for Romanian individuals is much more limited than their European peers. Based on this assumption, the following hypothesis is advanced:

H4: Lack of past entrepreneurial experience is a cause of venture bankruptcy.

Undercapitalisation

According to Lorz and colleagues (2013), the European Commission reports that Romanian SME access to financing is restricted due to various supply and demand issues. Financing new ventures is assessed as high risk for financial institutions (European Commission, 2016). Recent literature indicates that the 'existence of start-up capital has a significant positive effect on entrepreneurial intentions' [self-efficacy], showing that '53% of [Romanian] participants had less than €5,000 in savings before they created their venture, while some had no salary or another source of revenue -28% and they had a very low wage 65%' (Blaga, 2021:15). Despite this, Romanian entrepreneurs are keen to invest in low-cost opportunities, thereby reducing the loss if bankruptcy occurs.

'Super-confident' entrepreneurs display a high level of self-efficacy and confidence and 'will accept an increased financial risk due to new venture undercapitalisation, poor budget planning and borrowing from the bank, family, and friends' (Bell et al., 2018:63). Businesses established by entrepreneurs with a very high or very low perception of their self-efficacy are the most vulnerable, as these ventures are usually undercapitalised in Romania. Government agencies, banks and legal advisers must understand that financial skills are important for new venture sustainability (Farrell et al., 2016; Bell et al., 2018) and should act carefully when approving grants to potential entrepreneurs.

There are differences in managing business finances between men and women, as women are more risk-averse and carefully consider their investment/spending decisions (Beckmann & Menkhoff, 2008), while men are more prepared to take higher risks for greater financial gain (Chong et al., 2021).

Together, these arguments underline the importance of capitalisation for new venture survival, and therefore we propose the following hypothesis:

H5: Undercapitalisation of new ventures leads to business bankruptcy.

Financial literacy

'Inadequate business acumen, including poor financial literacy, undermines entrepreneurial activity' (Shamim & Yanping, 2018:355). The Financial Planning Association of Australia Ltd. (2016) states: 'Financial literacy is the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing.' Another definition of financial literacy is 'peoples' ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, and pensions' (Lusardi & Mitchell, 2014).

Alternatively, the EU (2020) explains financial literacy as 'the knowledge and skills needed to make important financial decisions ... [that] protect individuals from over-indebtedness, excessive risk-taking, fraud, or cyber risks.' The EU considers that 'the concept of financial literacy is multidimensional, reflecting not just knowledge but also skills, attitudes, and actual behaviour. Financial education complements entrepreneurs' protection, but does not replace it' (EU, 2020).

Financial literacy is critical, especially for entrepreneurs in the early stages of their ventures, helping them to make sound financial decisions (Drexler et al., 2010; Chong et al., 2021). The literature has identified the following elements of financial literacy: basic numeracy and maths knowledge; legal financial responsibilities such as tax, customers rights (warranty, refunds, etc); financial statements and ratios (acid test, breakeven point, loan default) and the ability to seek accounting advice in early stage to avoid difficult financial situations (Wise, 2013; Shamim & Yanping, 2018). However, this study is opportune as most Romanian entrepreneurs are financially illiterate (Dăianu et al., 2004). Therefore, we propose testing the following hypothesis:

H6: Lack of financial literacy is a factor that leads to business bankruptcy.

Entrepreneurial education

Academics agree on the important role of entrepreneurship education in the development of an entrepreneurial economy, underlining the benefits for the country, local communities, individuals and their families (Alicia et al., 2010). The European Commission Report (EC, 2010:65) defines entrepreneurship education as 'building of knowledge and skills *about* or *for the purpose of* entrepreneurship as part of recognised education programs at primary, secondary or tertiary-level educational institutions.'

Making a difference between *about* and *for the purpose of* entrepreneurship, the education program '*about*' is general and has an explanatory purpose; meanwhile, the meaning '*for the purpose of'* entrepreneurship is very specific, referring to training focusing on 'the discovery, enactment, evaluation, and exploitation of a business opportunity' (EC, 2010:72). Each country's economic development is widely different around the world, and hence their needs also differ. Due to the heterogenous nature of entrepreneurship, it is imperative to carefully choose entrepreneurial education programs that enhance entrepreneurial propensity, to assure national needs (Lorz et al., 2013).

Education *per se* and entrepreneurial education in particular should mirror a country's social priorities, and the society changes, its education programs should follow. Western countries have a well-established entrepreneurial economy, with strong institutional support, including education *about* or *for the purpose of* entrepreneurship. The Romanian entrepreneurial economy is in an incipient stage, exposing significant transformation and the crises characteristic of the emergence of entrepreneurship (Scarlat et al., 2011).

Romanian entrepreneurial education is more *about* entrepreneurship, and academic research on entrepreneurial education is disjointed, revealing considerable research gaps as many significant content issues are missing, covering venture formation, development and bankruptcy. The literature on entrepreneurial education is mostly based on analysing students' entrepreneurial intentions (e.g., Luca & Cazan, 2011; Popescu et al., 2016; Vodă & Florea, 2019), with little chance of these becoming a reality. Further, the Romanian literature on entrepreneurial education ignores its role in preventing firm bankruptcy. Therefore, we propose testing the following hypothesis:

H7: Lack of entrepreneurial education leads to firm bankruptcy.

Entrepreneurial culture

The entrepreneurial process is similar around the world. What differentiates it in different countries is the local entrepreneurial culture at the national, regional and community levels (Casson, 1997). Different communities may have different views, perceptions and interpretations of the entrepreneurial process. These differences lead to the emergence of different entrepreneurial behaviours (Şahina & Asunakutlub, 2014).

As early as 1871 the reputed ethnologist Tylor stated that 'culture is that complex whole which includes knowledge, belief, art, law, morals, custom, and any other capabilities and habits acquired by man as a member of society' (Lowie, 1917). In the entrepreneurial context, this definition emphasises that local culture, expressed by individuals' beliefs, understandings and practices, may affect an individual's entrepreneurial orientation and subsequently communities' psychological orientation and perception of entrepreneurial actions (Pütz, 2003; Lorz et al., 2013). Thus, entrepreneurs must seek community acceptance of new venture activities. If this is ignored, the new venture may be confronted with boycotts and violent actions that would undoubtedly lead to bankruptcy. This section sheds light on how Romanian entrepreneurial culture affects firms, leading to bankruptcy.

Culture and business failure

Despite extensive literature on the factors affecting entrepreneurship, there is a knowledge gap regarding the existing entrepreneurial culture and its support of the new venture. This study has adopted the following meaning of culture 'as the set of basic common values which contributes to shaping people's behaviour in a society' (Inglehart, 1997). Milton Friedman's essay in The New York Times in the 1970s stated that if someone wishes to see capitalism in its perfect context, they should visit Hong Kong where everybody is doing something and selling everything to everybody. In this case, there is a strong entrepreneurial culture (Thomas et al., 2000).

Hofstede (2001) states that cultural dimensions are widely used in analysing entrepreneurship. However, the relationship between entrepreneurial culture, regional rates of innovation and economic growth are recognised (Beugelsdijk, 2004), and entrepreneurial differences are emphasised (Hofstede, 2001). However, one may say that geographical regions with a strong entrepreneurial culture are more supportive of new venture formation and implicit its survival (Spigel & Harrison, 2017) creating a favourable entrepreneurial ecosystem.

Literature on Romanian entrepreneurial culture lacks solid qualitative and quantitative research, being unconnected, having a more "ethnographic attitude" (Scarlat, et al., 2011) due to a lack of solid empirical data, emerging from statistics of reliable government reports. To some extent, these types of studies help, as are based on understanding the specific Romanian entrepreneurial context and the social interactions occurring, highlighting the cross-community relationship in the process of venture creation, running the business, and its bankruptcy (Scarlat, et al., 2011). "A strong entrepreneurial culture means a bigger tolerance for failure and the acceptance of the vital role of the entrepreneurs in creating new jobs" (Grigore and Mitroi, 2012:150).

As the Romanian entrepreneurial economy is in the incipient stage it is premature to talk about the existence of an entrepreneurial culture, but certainly, there are significant elements of it. As such, due to the high level of corruption and fraudulent funds used in various entrepreneurial initiatives, Romanians are very suspicious and subsequently wary in accepting new ventures (Bratu, 2018).

Consequently, lack of social support, due to local culture may lead a firm to bankruptcy. This judgement suggests the following hypothesis for testing.

H8: A supportive entrepreneurial culture prevents firm bankruptcy.

Institutional support

Several international organisations, such as the World Bank, the Organization for Economic Cooperation and Development (OECD) and the European Commission, have praised Romania for its notable development over the last decade, but much more needs to be done. The country is confronted with significant challenges with regard to productivity, wage growth, poor strategic investment results, workforce shortages and low absorption of EU funds, among other issues. Romania has internalised all EU entrepreneurial and financial policies, aiming to 'create jobs, promote skills for entrepreneurship, improve the labour markets, that confront poverty and social exclusion, improve social protection, health, and safety and protect persons with disabilities' (OECD, 2020:21).

The EC is aware that entrepreneurs in Western European countries may have a competitive advantage over entrepreneurs from Eastern European countries, and has noted institutional differences in terms of their competence, efficiency and commitment to entrepreneurship. Specialised organisations have been created at the EU level to elaborate a legal framework and entrepreneurial policies over the entire EU, to monitor their implementation and assess the outcome, as one size does not fit all. At the EU level, efforts are being made to protect entrepreneurs from bankruptcy.

As part of the EU, Romania adopted the *Small Business Act for Europe* (SBA) 2019, which provides policies and initiatives to support SMEs. The SBA fact sheets, published annually, aim to improve Romanian institutions' performance and apply changes to incorporate new trends and improve national policies affecting SMEs that may help prevent existing entrepreneurs from entering into bankruptcy.

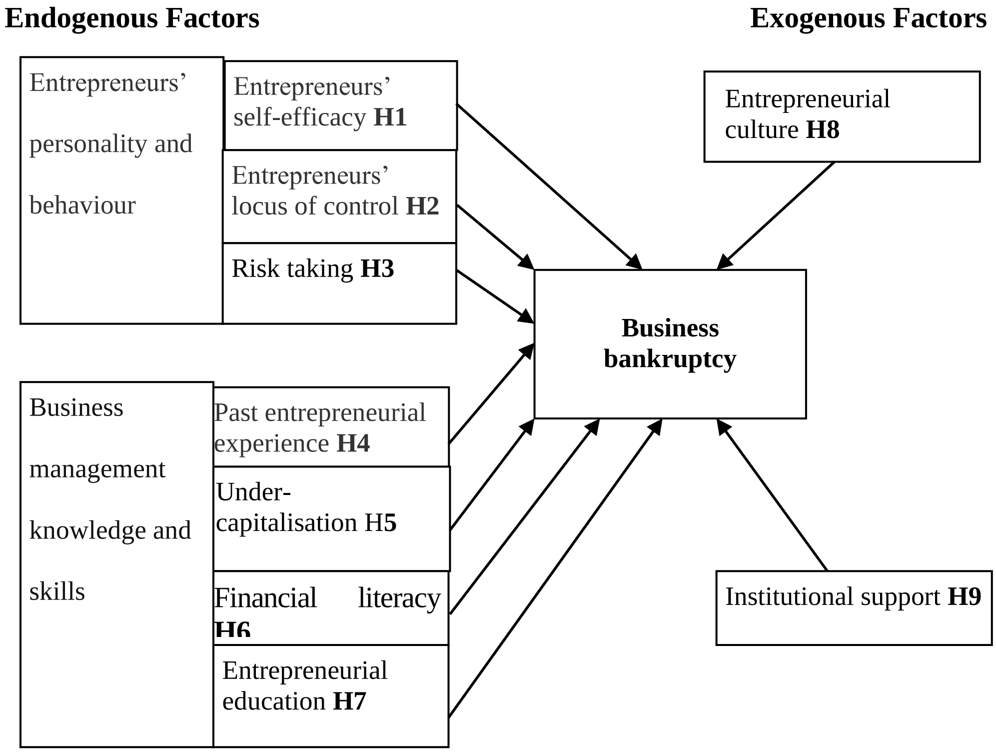
In terms of entrepreneurial education, 'statistics at the European [Union] level indicate that Romania allows little importance to entrepreneurial education so that less than 10% of those who have started and developed a business have a theoretical basis for this [activity], compared to the European average of 30%' (Domilescu, 2019). Similar views are shared by Csintalan et al. (2016), who state: 'both economic education and entrepreneurship should be a national priority for education, taking into account the trend of socio-economic development of the EU' (:244), which needs strong institutionalised support. Based on these arguments, we advance the following hypothesis:

H9: Lack of institutional support lead firms bankruptcy.

Overview and the conceptual model

Analysis of the entrepreneurial literature reveals that many endogenous and exogenous factors lead a company to bankruptcy. Taking the definition of bankruptcy as 'firms are unable to continue their activity due to lack of financial resources and are unable to fulfil their financial liabilities in paying their creditors, is in the insolvency stage' (Munteanu & Cavaropol, 2017:79), this study elaborates several hypotheses, outlined above. Based on these hypotheses, we propose a conceptual model of business bankruptcy, presented in Figure 1.

Figure 1. Conceptual Model of Firm Bankruptcy



Sources: Created for this study

The conceptual model presented in Figure 1 suggests that all the hypothesised factors negatively affect a company's activity, potentially leading to bankruptcy. Therefore, business bankruptcy is the dependent variable, and the endogenous and exogenous factors affecting the dependent variable comprise the independent variables. Testing the correlations between the dependent and independent variables will confirm or reject the hypotheses formulated.

Methodology and research design

The positivism paradigm was chosen for this study, as a quantitative analysis is recommended (Bell et al., 2018). Quantitative research answers the call for rigorous research in the field of firm bankruptcy (Bradley & Cowders, 2004). Research participants will be randomly selected from the Romanian Ministry of Justice — National Office of the Trade Register records of bankrupt SMEs, and agreed to participate in this study. The minimum sample size should be over 100 participants as the number of research variables is relatively high.

Research data will be collected by a validated instrument previously used for the study of SMEs and economic development at the University of Seville (Blanco-Oliver, et al. 2014), to explore firm bankruptcy. Each variable will be measured using a five-point Likert scale rating system designed to measure people's opinions or perceptions. The preamble of each section of the questionnaire will be clearly explained to the participants in a written statement of the purpose and objective of the questions to eliminate confusion and ensure consistency.

The instrument will be sent to the participants by e-mail and also will be available online through the Ministry of Justice website to enhance the credibility of the study and increase the response rate. Once data has been collected, a screening and cleaning process will be conducted. This study examines multiple independent predictors and therefore a multiple linear regression model will be employed (Coakes, 2013). The research quality is ensured by quantifying the generalisability, validity, reliability and transferability of the results. Finally, the researcher is committed to all legal and ethical requirements.

Conclusions

Bankruptcy is part of any economy and is inevitable. In most cases, this can be avoided if correct and timely advice is offered and help provided for the benefit of the national economy, communities and individuals. This complex analysis identifies prevalent factors that influence the entrepreneurial process, and entrepreneurs' behaviour contributing to firm bankruptcy, with the aim of reducing the bankruptcy level in Romania.

The literature review reveals that the following generic variables may lead to bankruptcy: entrepreneurs' personality and related behaviour (self-efficacy, locus of control and risk-taking), business management knowledge, past entrepreneurial experience, undercapitalisation, financial literacy, entrepreneurial education, entrepreneurial culture and institutional support. Nine hypotheses are put forward for testing to confirm or reject the effects of these independent variable on firm outcomes leading to bankruptcy.

This study answers the call for robust research on firm bankruptcy. Quantitative methodology is proposed as best serving this study's objective to make bankrupt entrepreneurs heard and to bring in economic, legal, and institutional changes that will diminish the rate of bankruptcy in Romania. The study is a call for action, as 'success is not final, failure is not fatal: it is the courage to continue that counts' (Winston Churchill).

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