Spotlight
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Do rational entrepreneurs really make rational decisions?

Why do family business leaders cling to failing ventures despite knowing better?

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Published on March 15, 2022 *https://doi.org/10.68623/spotlight.2025.8z9*

Entrepreneurial persistence is often romanticized as the hallmark of successful founders: perseverance through adversity is celebrated, taught, and emulated. But persistence can also be dangerous—especially when it keeps entrepreneurs locked into failing ventures that sap financial resources, emotional energy, and family cohesion.

For family businesses, this issue is even more complex. Emotional attachment, legacy concerns, and the desire to protect family reputation often color business decisions. Understanding how cognitive biases shape persistence decisions is essential. This study offers a deep dive into entrepreneurial cognition, challenging the traditional view that decision-making in family enterprises is (or can be) purely rational.

WHAT WE STUDIED

This research bridges entrepreneurship and cognitive psychology, focusing on two key constructs:

- **Rational Decision-Making Style**: the degree to which individuals believe they gather and process information logically.
- **Need for Cognitive Closure (NFCC)**: the psychological desire to avoid ambiguity and arrive at a firm decision quickly.

To explore how these traits influence entrepreneurial persistence, the authors conducted **three discrete choice experiments (DCEs)**:

1. **Study 1**: 176 Australian entrepreneurs
2. **Study 2**: 128 Australian entrepreneurs (narrow replication)
3. **Study 3**: 157 UK entrepreneurs (quasi-replication)

Participants were asked to make 16 decisions between pairs of hypothetical underperforming ventures. Each scenario varied systematically based on six factors—three retrospective (past-focused) and three prospective (future-focused)—such as degree of underperformance, risk of default, and personal investment.

KEY INSIGHTS

1. Rationality in Name, Irrationality in Practice

Despite rating themselves as rational thinkers, entrepreneurs frequently failed to act according to rational choice theory. Instead of weighing future gains and losses optimally, they were influenced by **past investments** and **duration of underperformance**, classic symptoms of the **sunk cost fallacy**.

This contradiction highlights a vital tension in family business leadership: leaders may intellectually recognize the need for rational analysis but emotionally struggle to abandon ventures that carry family history, pride, or identity.

2. Cognitive Closure: Comfort Over Opportunity

Entrepreneurs with a high NFCC showed a strong preference for **retrospective information**—facts already known and certain—over speculative future opportunities like market growth potential.

This tendency to "freeze" on available information means family business leaders may cling to familiar but declining sectors or traditional business models even when evidence suggests pivoting or exiting would be wiser.

3. Past Weighs Heavier Than Future

Across all three studies, entrepreneurs consistently gave **more attention to past performance and sunk**

costs than to future risks or possibilities. Period of underperformance and personal investments often overshadowed important prospective factors like risk of default or potential for market expansion.

In family businesses, this insight underscores the emotional burden of abandoning "the family business project" and the dangers of valuing loyalty over adaptability.

4. Cultural and Contextual Nuances Matter

The results also revealed variations across national contexts. Australian and UK entrepreneurs exhibited different cognitive patterns, likely influenced by cultural attitudes toward uncertainty and their respective experiences during the COVID-19 pandemic.

This finding suggests that family businesses operating internationally must be sensitive to how local cultural norms shape persistence behaviors.

TAKEAWAYS

Recognize Emotional Biases in Decision-Making

Family businesses must acknowledge that persistence decisions are not purely data-driven. Emotional investments—financial, reputational, and relational—can distort rational judgment.

Develop Balanced Decision Frameworks

Strategic decisions should explicitly weigh both retrospective (past performance, sunk costs) and prospective (future risks and opportunities) factors. Create frameworks that guard against overvaluing historical investments.

Implement Pre-Set Exit Triggers

Establish clear, measurable criteria for persistence or exit before emotional attachment deepens. This can prevent family businesses from staying too long in losing ventures due to misplaced loyalty.

Seek External Perspectives

Family businesses benefit from objective advisors or board members who can challenge assumptions and bring an outside-in view, less influenced by internal emotional dynamics.

Promote Tolerance for Uncertainty

Encouraging a culture that accepts ambiguity and open-ended possibilities can counteract the damaging effects of high cognitive closure tendencies.

IMPACT

This research challenges the heroic narrative of entrepreneurial persistence. For family businesses, the stakes are particularly high: clinging to underperforming ventures risks not only financial loss but also family conflict, erosion of legacy, and missed opportunities for innovation.

Future studies could further explore how **intergenerational differences** in family businesses—where younger members may be more comfortable with ambiguity—interact with cognitive styles to shape persistence decisions.

Understanding the subtle psychology of persistence offers family businesses a powerful tool: the ability to exit gracefully, innovate boldly, and sustain their legacy across generations.

RECOMMENDATIONS

- **Train leadership teams** on cognitive biases and decision-making under uncertainty.
- **Institutionalize "devil's advocacy"**: designate someone in strategic discussions to argue for alternatives, including exit or radical change.
- **Incorporate scenario planning**: imagine a range of possible futures, rather than fixating on a single outcome based on past investments.
- **Conduct regular venture reviews**: periodically reassess ventures with clear, unemotional performance metrics.
- **Encourage a growth mindset**: celebrate adaptability and strategic pivots, rather than only persistence for persistence's sake.

Spotlight by CeFEO, Do rational entrepreneurs really make rational decisions? Why do family business leaders cling to failing ventures despite knowing better? Downloaded on 10 November 2026 from https://doi.org/10.68623/spotlight.2025.8z9

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PUBLISHED IN



Lin, N., Wilden, R., Chirico, F., Ghasrodashti, E., & DeTienne, D. R. (2022). Persist or let it go: Do rational entrepreneurs make decisions rationally? Journal of Business Venturing, 37(4), 106210

https://doi.org/10.1016/j.jbusvent.2022.106210

Spotlight is an online magazine that translates research from the Centre for Family Entrepreneurship and Ownership (CeFEO) at Jönköping International Business School, Jönköping University, into accessible insights for family business owners, practitioners, and policymakers.

Spotlight is supported by the WIFU Foundation. This partnership advances dialogue and education in responsible family entrepreneurship and ownership.