Spotlight
by CeFEO

Why do family businesses keep investing in ventures that are clearly failing?

Emotional ownership and legacy thinking trap families into escalating commitment

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Why do some family businesses continue pouring resources into a failing venture long after objective evidence suggests they should stop? The phenomenon is well documented in organizational behavior: escalation of commitment, where decision-makers increase their investment in a losing course of action rather than cutting losses. But in family firms, the dynamics are different. The emotional, identity-based, and relational dimensions of family ownership create conditions that make escalation both more likely and harder to recognize.

This conceptual paper develops a set of propositions about how and why family businesses escalate commitment to failing ventures, drawing on behavioral decision theory, socioemotional wealth (SEW), and the distinctive governance characteristics of family-controlled firms. The authors argue that the same features often celebrated as strengths of family firms—long-term orientation, emotional commitment, identity overlap between family and firm—can become liabilities when a venture is failing.

WHAT WE STUDIED

The paper is theoretical rather than empirical. It synthesizes existing research on escalation of commitment with the family business literature to develop testable propositions. The framework distinguishes between **project-level factors** (characteristics of the failing venture itself), **psychological factors** (cognitive biases and emotional attachments of individual decision-makers), **social factors** (group dynamics, family norms, and external expectations), and **structural factors** (governance configurations that enable or constrain de-escalation). Each category is analyzed through the lens of family firm specificity—asking how the presence of family ownership, management, and identity alters the standard escalation dynamics observed in non-family settings.

KEY INSIGHTS

Sunk costs carry emotional weight beyond financial calculation

In any firm, sunk costs can distort decision-making: the more you have invested, the harder it is to walk away. But in family firms, sunk costs are not just financial. They include years of personal sacrifice, family reputation staked on the venture, and the labor of family members who may have devoted their careers to it. A founder who built a division from scratch experiences its potential closure as a personal failure, not just a portfolio rebalancing exercise. This emotional loading of sunk costs makes rational de-escalation significantly harder.

Self-justification is amplified by family identity overlap

Decision-makers who feel personally responsible for a failing venture are more likely to escalate commitment to justify their original decision. In family firms, this effect is intensified because the boundary between personal identity and firm identity is blurred. Admitting that a venture has failed can feel like admitting that the family's judgment—its core competence narrative—was wrong. The need to protect family reputation and self-concept creates a powerful psychological barrier to honest evaluation.

Group loyalty and conformity pressure suppress dissent

Family firms often operate with strong norms of loyalty, consensus, and respect for elders or founders. These norms, while valuable for cohesion, can suppress the kind of critical questioning that would

surface problems early. Junior family members may hesitate to challenge a senior member's pet project. Non-family managers may avoid raising red flags for fear of being seen as disloyal. The result is a decision-making environment where negative information is filtered, delayed, or reframed—precisely the conditions under which escalation thrives.

Socioemotional wealth creates a hidden cost of de-escalation

The SEW framework identifies the non-financial value families derive from their firms: control, identity, social ties, emotional attachment, and generational continuity. Exiting a failing venture can threaten multiple SEW dimensions simultaneously. Selling or closing a business may mean losing a platform for family employment, severing community ties, or abandoning a legacy project that symbolizes the family's entrepreneurial spirit. These costs are real to the family even if they are invisible on a balance sheet —and they tilt the calculus toward continued investment.

Governance structures can enable or constrain escalation

The paper argues that governance configuration matters. Concentrated family ownership with weak board oversight creates conditions where escalation can proceed unchecked—the family controls both the decision and the evaluation of the decision. Independent directors, formal performance review processes, and structured portfolio evaluation mechanisms can create the institutional friction needed to force honest assessment. But in many family firms, particularly smaller or earlier-generation ones, these governance safeguards are underdeveloped or deliberately avoided to preserve family autonomy.

Later generations may be better positioned to de-escalate

One nuanced proposition: later-generation family members, who did not make the original investment decision, may find it easier to de-escalate. They lack the personal responsibility that drives self-justification and may have weaker emotional attachment to ventures they did not create. Generational transition, therefore, can be a natural intervention point—but only if the incoming generation has the authority and governance support to act on their assessment.

TAKEAWAYS

Recognize the warning signs early

When family discussions about a struggling venture focus on past sacrifice rather than future potential, escalation is likely underway. Language like "we've put too much into this to stop now" or "this is what Dad built" signals that emotional and identity factors are overriding strategic analysis. Building awareness of these patterns is the first step toward managing them.

Separate evaluation from advocacy

The people most invested in a venture are the worst positioned to evaluate it objectively. Family firms should create mechanisms—whether through independent board members, external advisors, or structured review processes—that ensure venture performance is assessed by parties without a personal stake in the outcome.

Use governance as a de-escalation tool

Formal governance structures are not just about compliance or professionalization. They can serve as institutional safeguards against the cognitive and emotional traps that lead to escalation. Regular portfolio reviews with clear performance thresholds, pre-committed exit criteria, and independent oversight create the conditions for honest decision-making.

IMPACT

This paper fills an important gap by applying escalation-of-commitment theory specifically to the family firm context. The propositions are well grounded in both the behavioral decision-making literature and the family business literature, and they are ready for empirical testing. The practical contribution is equally significant: it gives family business leaders, advisors, and board members a framework for understanding why disengagement from failing ventures is so difficult in family settings—and what structural and psychological interventions can help.

RECOMMENDATIONS

1. **For family leaders:** Regularly evaluate whether commitment to a venture is driven by strategic analysis or by emotional attachment. Build governance that makes this distinction visible.
2. **For advisors:** Watch for sunk-cost language in family discussions. When past sacrifice is cited as justification for continued investment, escalation is likely underway.
3. **For later-generation members:** Your distance from the founding story can be an asset. Use it to ask questions that earlier generations may find difficult to raise.
4. **For scholars:** The propositions in this paper are ready for empirical testing. Longitudinal case studies of family firms that exited failing ventures — and those that did not — would advance this line of inquiry substantially.

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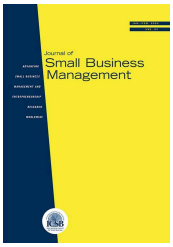
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