

## Escalation of commitment in private family businesses: The influence of outside board members

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### ABSTRACT

Owner–managers of private family businesses are vulnerable to escalation of commitment, which can lead to costly failure. In an effort to help private family businesses reduce such costs and contribute to the resource dependence literature, we extend prior research on escalation of commitment (Staw, 1981). Specifically, we develop a model that examines how outside board members influence the antecedents, and moderate the processes, that lead to escalation of commitment. Our work encourages the use of outside board members, insofar as they are likely to help the owner–managers of private family businesses to avoid escalation of commitment.

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*“The outside board member perspective is so important [in private family businesses] because at times you can get wound up in your own beliefs and rhetoric and not necessarily face the reality and objectivity of what you are doing.”*

Rick Kline, CEO

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### 1. Introduction

The predominant form of business in the world today is the private family business (i.e., private businesses that are both owned and managed by family members) (Astrachan & Shanker, 2003; Family Firm Institute, 2005). Many of these businesses rely heavily upon a single family member (e.g., a president or CEO) who has predominant decision making authority in the business (Feltham, Feltham, & Barnett, 2005). Due to their family ties and emotional attachment to the company, these owner–managers tend to be personally vested in the strategies they develop and are often deeply committed to the long-term success of the family business (Gómez-Mejía, Takács Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007). They tend to hold their positions in the firm for much longer than executives in nonfamily firms and are heavily relied upon by others to make key decisions (Gersick, Davis, Hampton, & Lansberg, 1997).

While long-term dependence upon a single or small group of owner–managers can accelerate decision making (Vroom & Yetton, 1973), researchers also find that over time it reduces the propensity of other family members and employees to engage in useful debates (Ensley, 2006; Janis, 1971; Kellermanns & Eddleston, 2004) and diminishes their ability to share concerns or question strategic decisions (Zahra, Hayton, & Salvato, 2004). When the owner–managers of private family businesses lack sufficient involvement from others in making important decisions and are busy with both the strategic and operational demands of the company (Tio & Kleiner, 2005; Tversky & Kahneman, 1974), it is likely to influence their ability to make high quality decisions, rendering them more susceptible to errors in judgment – including escalation of commitment (i.e., sustained commitment to a failing course of action) (Staw, 1976).<sup>1</sup>

Staw's work on escalation of commitment (1981) predicts that when individuals feel responsible for decisions and failure ensues, they are prone to justify themselves, anticipate that future success is just around the corner, and continue to pursue the suboptimal course of action, despite its negative effects on the firm. Insofar as empirical testing validates the idea that escalation of commitment by powerful executives is predictive of corporate bankruptcy (Daily & Dalton, 1994) and chronic underperformance by small

<sup>1</sup> Insofar as escalation of commitment refers to a sustained commitment to a failing course of action, it is different from organizational commitment, which is the strength of an employee's identification with and involvement in a particular organization (Mathieu & Zajac, 1990).

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entrepreneurial firms (DeTienne, Shepherd, & Castro, 2008), research investigating ways to avoid escalation of commitment in private family firms seems warranted. Family business research that points out the complexity in changing the strategic direction of firms that simultaneously juggle both family and business priorities (Astrachan & Jaskiewicz, 2008; McCollom, 1990; Sharma, 2004) further underscores the need for this research.

To begin to address this timely area of family business research, we complement escalation of commitment theory with insights from resource dependence theory (Hillman, Withers, & Collins, 2009; Pfeffer & Salancik, 1978). In so doing, we illustrate how resource dependence theory contributes a mechanism to escalation of commitment theory (i.e., outside board members) that may enable family businesses to avoid escalating their commitment to failing courses of action. Since escalation of commitment is an under-studied phenomenon by family business researchers and the link between boards and escalation of commitment has yet to be examined in the family business literature, this focus allows us to contribute to academic research while simultaneously exploring a potential source of significant costs and underperformance in private family businesses.

Our joint use of escalation of commitment and resource dependence reasoning also permits us to extend traditional resource dependence logic. Given its traditional focus on the environment (Katz & Kahn, 1966; Pfeffer & Salancik, 1978), resource dependence theory aptly emphasizes mechanisms that facilitate the flow of resources to firms, yet it often stops short of explaining how these external resources are received and used within firms. Thus, it is susceptible to providing a so-called 'black-box' depiction of the relationship between board member characteristics and organizational outcomes (Pugliese et al., 2009). This is an important shortcoming to address since research suggests that incoming knowledge and resources must be used, and even combined with other resources, in order to create value for customers and wealth for owners (Sirmon, Hitt, & Ireland, 2007). In this research, we employ behavioral insights from the escalation of commitment literature to begin to address this limitation. These insights enable a clearer understanding of how the resources outside board members provide (e.g., strategic knowledge and experience) can be used within firms to shape their strategies and to avoid escalation of commitment.

This study also enables us to contribute to the family business literature on boards. Insofar as private family businesses often have no boards at all (Pieper, Klein, & Jaskiewicz, 2008) or smaller boards (Jaskiewicz & Klein, 2007) that involve few outside board members (Fiegenger, Brown, Derux, & Dennis, 2000), clarifying the potential contributions of outside board members is a timely focus of research that could assist owner-managers in their efforts to lead private family businesses. In view of offering practical guidance to these owner-managers and contributing to theory, we develop propositions built upon Staw's foundational work on escalation of commitment (1981). We employ a resource dependence view of outside board members and illustrate how outside board members both influence the antecedents, and moderate the processes, that lead to escalation of commitment. Our work encourages the use of outside board members in private family businesses, insofar as they are expected to help owner-managers in these businesses to avoid escalation of commitment.

## 2. Escalation of commitment

In a series of writings from the mid 1970s through the late 1980s, Barry Staw, Jerry Ross, and their collaborators developed a stream of thought around escalation of commitment. These scholars examined how individuals persist in unprofitable courses of action because of their desire to justify previous actions and

their hope that if they simply "stay the course" things will eventually improve (Staw, 1976, 1981; Staw & Ross, 1978, 1987). Since that time, scholars have drawn upon logic from the motivation, decision making, and group polarization literatures to bolster the idea that human beings are prone to escalation of commitment at the individual, group, and organizational levels (Brockner, 1992). They have found substantial support for escalation of commitment reasoning (Staw, 1981) in both laboratory and field studies (e.g., Barton, Duchon, & Dunnegan, 1989; Bazerman, Giuliano, & Appelman, 1984; McNamara, Moon, & Bromiley, 2002), and in both established corporations and small entrepreneurial businesses (DeTienne et al., 2008) – many of which are private family businesses.

In fact, strategic decision makers in private family businesses seem particularly prone to escalation of commitment because both the family and the business systems (i.e., individuals, structures, and priorities) (McCollom, 1990) in these organizations must be navigated when planning changes in strategy. Conflicts between family and business priorities (Sharma, 2004) can make it harder to change strategic plans, particularly when the previous generation of family owner-managers interferes in efforts to modernize business objectives and strategies (Davis & Harveston, 1999; Eddleston, Otondo, & Kellermanns, 2008). Faced with such conflicts, empirical findings suggest private family businesses commonly pursue family relationships, family control, and emotional returns (e.g., personal and family standing in the community) above business priorities and financial returns (Astrachan & Jaskiewicz, 2008; Gómez-Mejía et al., 2007). Such findings shape our view that escalation of commitment may have a particularly important influence on the strategies and financial performance of private family businesses.

Though a focus on the escalation of commitment phenomenon is new to the family business literature, extant research in non-family firms largely validates Staw's (1981) reasoning, suggesting it is likely to be a fruitful avenue of inquiry for family business scholars. For example, organizational researchers have been able to confirm that responsibility for a failed course of action, self-justification, and perceptions of likely outcomes are all significantly associated with escalation of commitment (Rutledge, 1995; Whyte, 1991, 1993). The outcomes of escalation of commitment include loss of customers and market share, damage to brand and firm reputations, as well as economic losses from the inefficient use of resources and the pursuit of ill-advised or poorly timed investments. In view of such outcomes, it is not surprising that scholars have also found that escalation of commitment to unprofitable courses of action can threaten financial performance and even result in bankruptcy (Daily & Dalton, 1994). For this reason, they have devoted attention to mechanisms that may prevent such escalation.

To illustrate, empirical research suggests having a budget is negatively associated with escalation of commitment, whereas in contexts where decision makers do not rely upon a budget or where expenses are more difficult to track, escalation of commitment is more likely (Heath, 1995; Tan & Yates, 2002). Interestingly, researchers find supervision or monitoring of decision makers can both inhibit escalation of commitment (Kirby & Davis, 1998), and give rise to it (McNamara et al., 2002), particularly if monitoring is too frequent or short-term oriented (Kite, Katz, & Zarzeski, 1996). One mechanism that has been largely neglected to date which may avert or reduce escalation of commitment is the involvement of helpful outsiders.

## 3. Outside board members in private family businesses

One of the primary ways in which private family businesses can incorporate outsiders is through the use of outside board members

(Arosa, Iturralde, & Maseda, 2010). Though several scholars have begun to explore the role of boards in private family businesses (e.g., Schulze, Lubatkin, & Dino, 2003; Schulze, Lubatkin, Dino, & Buchholtz, 2001), their focus has often been the influence of boards (and other governance mechanisms) in controlling agency problems (Van den Heuvel, Van Gils, & Voordeckers, 2006), rather than on the board's provision of resources to the firm. Though agency problems tend to be less prevalent in private family businesses since many of the owners are also managers of these businesses (Lane, Astrachan, Keyt, & McMillan, 2006), the "provision of resources function" (Hillman & Dalziel, 2003), which includes providing helpful advice, counsel, and other resources to owner-managers, remains a largely neglected topic of research in private family business scholarship.

Recent research draws attention to the importance of the provision of resources function of boards in private family businesses (Corbetta & Salvato, 2004; Voordeckers, Van Gils, & Van den Heuvel, 2007). In fact, scholars find owner-managers of private family businesses view the provision of resources by outside board members among these outsiders' most important duties (Van den Heuvel et al., 2006). This function of boards is emphasized by scholars in the resource dependence tradition (Pfeffer & Salancik, 1978). Resource dependence theory regards outside board members<sup>2</sup> as supportive intermediaries whose diverse knowledge, experience, and relational ties with constituents outside the firm allow them to contribute to strategic decision making in the firm (Hillman & Dalziel, 2003). The resource dependence view is that when a director joins a board he/she "will come to support the organization, will concern himself with its problems, will favorably present it to others, and will try to aid it" (1978: 163) by providing supportive advice and counsel and facilitating access to external resources.

Resource dependence logic regarding the contributions of outside board members seems highly relevant to private family businesses because these firms are private (i.e., they have few legal requirements to disclose information or otherwise involve outsiders). In addition, private family businesses are typically led by the founder or a dominant family member (or small group) responsible for making all strategic decisions (Feltham et al., 2005; Kelly, Athanassiou, & Crittenden, 2000). This means that private family businesses are relatively insulated from outside involvement in strategic decision making. This insulation is further compounded by nepotistic hiring, selection, and promotion practices (Royer, Simons, Boyd, & Rafferty, 2008), which can both deter the firm from including outsiders in managerial positions and limit the flow of novel strategies and resources to the firm. Even when family businesses successfully appoint nonfamily members to managerial positions, these executives are more likely to succeed with the support and insights of an outside board (Blumentritt, Keyt, & Astrachan, 2007). When it comes to succession, private family businesses often appoint family heirs (e.g., sons and daughters) to replace retired/deceased executives (Gersick et al., 1997; Haberman & Danes, 2007). These successors may not always be as qualified as professional managers (Dyer, 1989), which further compounds the need for receiving strategic advice, counsel, and other resources from well-qualified outside board members.

Notwithstanding the relevance of such board members in the examination of strategic decisions in private family businesses, resource dependence reasoning is not without limitations. Given its emphasis on the external environment (Katz & Kahn, 1966; Pfeffer & Salancik, 1978), resource dependence theory aptly

emphasizes mechanisms (e.g., boards, alliances, mergers, and acquisitions), which facilitate the flow of resources to the firm, but it largely overlooks how these external resources are used within firms after they have been provided. Thus, while resource dependence theory underscores the importance of outside board members, it offers a limited view of the processes by which the ideas and insights of these outsiders influence owner-managers making strategic decisions in private family firms.

To begin to address this limitation, we incorporate resource dependence and escalation of commitment reasoning into our propositions. We introduce outside board members into Staw's escalation of commitment theory (1981) and contribute an expanded model that provides further insight into how escalation of commitment might be avoided in private family businesses. We explore the processes through which insights provided by outside board members influence the decisions of owner-managers and their commitment to failing courses of action.

#### 4. Extending escalation of commitment & resource dependence reasoning

Staw (1981) provides a theoretical model for the escalation of commitment phenomenon. The condensed version of Staw's model in Fig. 1 describes how the motivation to justify previous actions and the perceived probability and value of future success all lead to escalation of commitment. In this paper, we propose an extension to Staw's escalation of commitment theory (see Fig. 1). We articulate how outside board members are likely to shape the antecedents and processes that would otherwise result in escalation of commitment in private family businesses.

##### 4.1. Exonerating information

Escalation of commitment theory (Staw, 1981) proposes the level to which a decision maker is responsible for a decision that has had negative consequences is one of the elements which contributes to the need for self-justification (Whyte, 1991), a direct antecedent of escalation of commitment (see Fig. 1). Having to admit a mistake causes many people discomfort because it is common to take pride in, and to be rewarded for, the successful consequences of one's actions. When a decision leads to a failed course of action, decision makers are deprived of satisfaction and other rewards, and may suffer a loss of stature or be singled out for derision. The logic of escalation of commitment theory is that these factors tend to prompt decision makers to continue with a failing course of action in the hopes of turning things around, receiving the associated rewards, and avoiding derision (Staw & Ross, 1978). In this paper, we propose that involving outside board members in decision making will lessen these tendencies because of their ability to provide exonerating information.

To illustrate, when owner-managers in private family businesses make strategic decisions, they often do so alone or with a small group of family members (Feltham et al., 2005; Zahra et al., 2004). Resource dependence theory posits that outside board members have a wealth of knowledge and insights (Hillman, Cannella, & Paetzold, 2000; Hillman & Dalziel, 2003) which enables them to contribute to strategic decision making and improve firm performance (Kula & Tatoglu, 2006). The involvement of outside board members is likely to lead to the generation of a wider array of strategic alternatives than if owner-managers formulate strategies alone (Tversky & Kahneman, 1974), more rigorous consideration of these alternatives, and additional evidence and voices supporting a chosen strategy (Blumentritt, 2006; Forbes & Milliken, 1999). This support can help owner-managers who must balance the demands of the family while also thinking strategically about the long-term viability of the business (Sharma, 2004).

<sup>2</sup> In this manuscript, we treat outside board members as those who are independent (i.e., have no familial or professional ties to the private family business). We exclude grey or affiliate board members (i.e., directors with familial or other close ties to the business) when considering these outside board members.

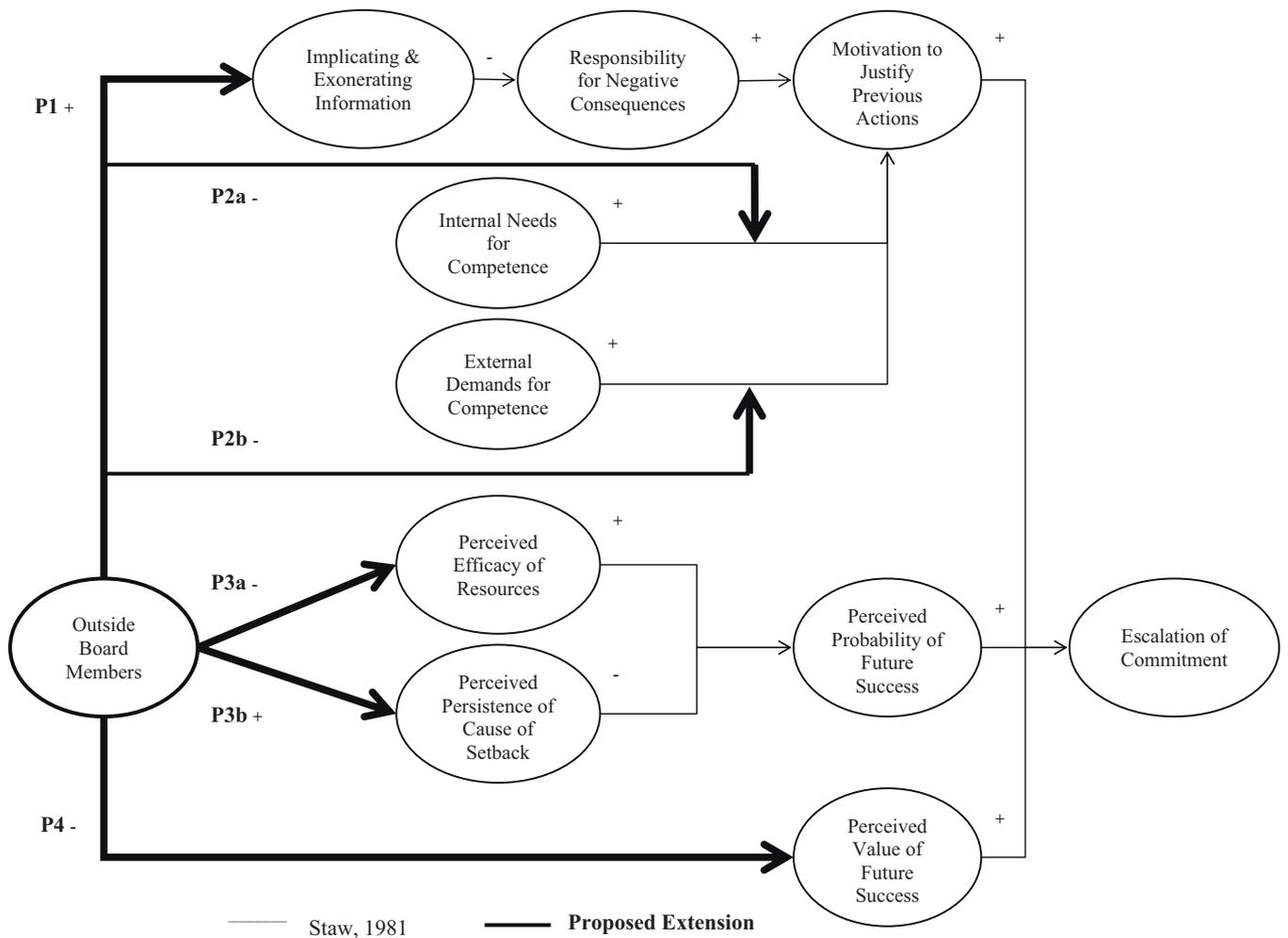


Fig. 1. Original escalation of commitment framework (Staw, 1981) and proposed extension.

The support, knowledge, and insights of outside board members shared in decision making not only provide owner–managers of private family businesses with valuable strategic options to consider, but also provide them with exonerating information. That is, to the degree outside board members provide input to the strategic decisions of the private family business they share responsibility for the outcomes of these decisions. This logic is supported by extant research which finds that searching for information from outsiders provides decision makers with information that exonerates them from bearing (at least some of) the weight of subsequent failure (Conlon & Parks, 1987; Staw, 1981). Such exonerating information tends to make owner–managers feel less culpable when a given strategy goes awry, insofar as it allows them to diffuse the blame among the providers of this information (Leatherwood & Conlon, 1987). This is particularly important in private family firms, since without the involvement of outsiders the blame for a failed strategy could fall to oneself and/or one’s own family and loved ones. In keeping with this logic, we submit:

**Proposition 1.** *Outside board members will be positively associated with the provision of exonerating information, which in turn decreases a private family firm owner–manager’s feeling of responsibility for negative decision consequences.*

To the degree owner–managers receive exonerating information from outside board members, and assume less personal

responsibility for a failed course of action, they are less likely to defend or justify their previous decisions and to escalate commitment. While this logic illustrates the value of outside board members, the provision of exonerating information is by no means the only way in which outside board members may help private family businesses to lessen escalation of commitment. Escalation of commitment theory (Staw, 1981) also proposes that internal needs and external demands for (decision maker) competence are also associated with decision makers’ motivation to justify previous decisions. Extending escalation of commitment reasoning with a resource dependence view of boards, we submit that outside board members moderate these relationships.

4.2. Needs & demands for competence

Escalation of commitment theory argues that people have a need to feel competent (i.e., in possession of knowledge and abilities which allow them to successfully accomplish goals) (MacKenzie, 2002). They also respond to expectations from external constituents (e.g., bankers, customers, suppliers, and society in general) to demonstrate competence (Giessner & van Knippenberg, 2008). In fact, many external expectations are institutionalized in society’s laws and regulations that govern businesses. Failed decisions deprive a decision maker of the opportunity to satisfy these internal needs and external demands – especially if the perceived causes for the failure were within the control of the decision maker. An unwillingness to accept defeat in the face of these internal and

external pressures can drive decision makers to justify previous decisions (and escalate commitment to a course of action) in the hope of maintaining or restoring their reputation of competence (Sivanathan, Molden, Galinsky, & Ku, 2008).

This issue is particularly relevant in private family businesses because owner–managers commonly feel significant internal pressure to demonstrate competence in view of bridging factions and overcoming conflicts within the family and between family and nonfamily members in order to obtain support for strategic objectives (Eddleston et al., 2008). In addition, the owner–managers of private family businesses often experience heightened external demands for competence due to the fact that the private and family-owned nature of their businesses limits some signals of legitimacy (e.g., external ownership) which they might otherwise use to build confidence in external constituents (Certo, 2003). In view of these pressures, we submit that the involvement of outside board members will help owner–managers and weaken the association between (1) internal needs and (2) external demands for competence and owner–managers' motivation to justify previous decisions.

#### 4.2.1. Outside board members and internal needs for competence

One of the fundamental assumptions of resource dependence theory is that outside board members aid and develop trusting relationships with owner–managers (Pfeffer & Salancik, 1978). To the degree outside board members take a cooperative approach in interactions with owner–managers in private family businesses, these owner–managers are more likely to feel safe to openly disclose relevant facts, including information related to failures their own actions may have caused (Gulati & Westphal, 1999; Westphal, 1999).

In such a context, owner–managers who have a high internal need for competence and are prone to justifying previous decisions may be less likely to do so (and more willing to take corrective actions) because of the support of outside board members. Indeed, prior research suggests cooperative interactions with outside board members can avert biases that influence managerial decision making and support of the organization (Knapp, Dalziel, & Lewis, 2011).

To illustrate, when a strategy is failing the owner–manager responsible for this course of action often feels added pressure from inside the business. A family member who proposed a different strategy, or a nonfamily member who feels she could do a better job leading the firm had she not been overlooked for promotion in favor of a family successor (Royer et al., 2008), might be particularly vocal in expressing discontentment with the failing course of action. Similarly, the owner–manager may second guess his own experience and qualifications relative to “professional” managers (Dyer, 1989) and wonder whether nepotism rather than business sense put him in the position to lead the firm's strategic direction (Chrisman, Chua, & Zahra, 2003). From Staw's (1981) escalation of commitment perspective such factors heighten internal needs for competence in the owner manager who, without support, is likely to resort to self-justification and ultimately entrenchment in the failing course of action. It is our view that if the owner–manager can access outside help and guidance from a board during such challenges, he/she will be less likely to try to justify the correctness of a failed strategy and more likely to engage in productive dialogue that results in corrective actions and innovative new solutions which will allow the firm to avoid escalation of commitment. For these reasons, we propose:

**Proposition 2a.** *Outside board members will weaken the positive relationship between the internal need for competence and the motivation to justify previous decisions of private family firm owner–managers.*

#### 4.2.2. Outside board members and external demands for competence

We further propose that the involvement of outside board members in private family businesses will weaken the relationship between external demands for competence and owner–managers' motivation to justify their previous decisions. Family firm owner–managers often need to demonstrate competent strategic planning and to defend their ability to execute upon that strategy in order to receive investment capital (Astrachan & McConaughy, 2001), trade credit (Filbeck & Lee, 2000), and other resources from individuals and entities outside the firm. In keeping with Staw (1981), the need to uphold the family firm's reputation of competence in the eyes of external constituents is likely to lead owner–managers to justify their decisions, rather than admit failure. However, with the support of reputable and competent outsiders (e.g., outside board members), owner–managers may be less likely to resort to self-justification (and more likely to take corrective action).

In keeping with this logic, resource dependence theory points out that board members are often selected because they have network ties with important external constituents (Mizruchi & Stearns, 1994; Stearns & Mizruchi, 1993) and reputations that enable them to enhance the legitimacy of the firm (Hillman et al., 2000) and accelerate the flow of resources to the firm (Pfeffer & Salancik, 1978). Because outside board members bolster the reputation of the firm and complement the expertise of owner–managers, admitting to a failed course of action is less likely to damage perceptions of owner–managers' competence or to threaten the family business' relationships with external constituents. In fact, outside board members are known to signal prestige and enhance a firm's external reputation (Certo, 2003). Thus, external demands for competence seem less likely to elicit self-justification (or other defensive responses) from owner–managers when the private family business is associated with reputable outside board members. In view of this logic, we submit:

**Proposition 2b.** *Outside board members will weaken the positive relationship between the external demand for competence and the motivation to justify previous decisions of private family firm owner–managers.*

Because motivation to justify previous decisions is a direct antecedent of escalation of commitment (Staw, 1981), outside board members that weaken the relationship between external demands for competence and owner–managers' motivation to justify their decisions may ultimately reduce the likelihood of escalation of commitment in private family businesses. In addition to this contribution, we further propose that outside board members will influence private family business owner–managers' perceptions of the probability of future success, another direct antecedent of escalation of commitment (Staw, 1981).

#### 4.3. Perceived efficacy of resources & persistence of causes of setbacks

When individuals optimistically assess the probability of future success or assume success is “just around the corner”, they are more prone to maintaining their present course of action even when it is failing (Staw & Ross, 1978). One of the principal influences on individuals' perceptions of the likelihood of future success is the extent to which they feel that they are capable of or have the resources to achieve success. When individuals believe in the resources at their disposal (i.e., they perceive the efficacy of their resources to be high) they tend to perceive a higher probability of future success (Staw, 1981).

The tendency to perceive high efficacy of resources is very pronounced in private family firms. Owner–managers of private family businesses are often particularly proud of their firms. Their family-identity and self-esteem are wrapped up in their perceptions

of the quality of their resources, the products/services they produce (Abdel-Maksoud, Dugdale, & Luther, 2005), and the success of their businesses (Denison, Lief, & Ward, 2004; Gómez-Mejía et al., 2007). Research suggests they feel their resources are not only sufficient to sustain the strategic objectives of the business, but also to support a myriad of family objectives like providing employment opportunities to family members (Chrisman et al., 2003) and maintaining the family name/reputation through community involvement (Astrachan & Jaskiewicz, 2008). The influence of family priorities within private family businesses can lead owner–managers to be both overly optimistic about (Cooper, Woo, & Dunkelberg, 1988; Strunk & Adler, 2009) and overly committed to their resources (Sharma & Manikutty, 2005). Accordingly, owner–managers are likely to benefit from the interpretations, valuations, perceptions, and insights of outside board members regarding the efficacy of the firm's resources to support successful enactment of the firm's strategy.

Given their independence from the firm, outside board members provide an objective assessment of the firm's resources. Their qualitative and quantitative valuations are shaped by their experiences in a variety of industries and professions (Hillman et al., 2000). Relative to owner–managers, they are unaffected by affinity for family members or self-identification with the family business or its resources (Hatun & Pettigrew, 2004; Sivanathan et al., 2008). Thus, we anticipate their appraisals of the efficacy of private family firms' resources will reshape owner–managers' (positively) biased perceptions of their resources and overly optimistic views of the strategic opportunities available to them (Shane, 2000). Formally stated:

**Proposition 3a.** *Outside board members will be negatively associated with private family firm owner–managers' perceptions of the efficacy of resources, which subsequently will dampen their perception of the probability of future success.*

Insofar as high perceived efficacy of resources is positively associated with owner–managers' view of the probability of future success, which is a precursor to escalation of commitment (Staw & Ross, 1978), an outside board member's independent assessment of the family firm's resources can help its owner–managers to avoid perceptions that might otherwise result in escalation of commitment. In addition to influencing owner–managers' assessments of the efficacy of their resources as portrayed in Fig. 1, outside boards may also be instrumental in helping owner–managers to avoid escalation of commitment by influencing their perceptions regarding the persistence of the cause of a setback or failure.

To illustrate, if owner–managers perceive the causes of setbacks are neither ongoing nor likely to recur, they are more likely to think the success of their strategy is forthcoming and to remain committed to a failing course of action. Thus, it is important for owner–managers to accurately assess the causes of a failed course of action in order to avoid escalation of commitment. Insofar as private family business owner–managers often have limited decision making support within the firm (Feltham et al., 2005), but are heavily relied upon to make a large number of strategic decisions while simultaneously dealing with the demands of operating the business (Tio & Kleiner, 2005), they may have difficulty finding time to accurately assess the causes of a particular failure. Compounding this matter, family members may seek to manage or distort their view of what the true causes are, particularly when these causes involve the actions, competency, or indiscretions of their loved ones (Schulze et al., 2001, 2003). Exploring the causes of a failed strategy may be further complicated in private family firms because of family psychodynamics (e.g., children's desire to differentiate themselves from their parents, identity crises), which can lead to obstructive conflict

among the firm's owner–managers (Kellermanns & Eddleston, 2004). Given such challenges, it can be easy for owner–managers to cope by falling into habitual routines (Gersick & Hackman, 1990) and adopting overly simplistic views of the business that can lead them to overlook problems and their true causes.

Outside board members, however, are saddled with neither the day-to-day operations of the private family business nor the psychodynamic effects which can hamper healthy discussion of firm strategies. They offer a more independent view of the challenges facing the firm and the causes of these challenges. Research reveals that many private businesses (Fried, Bruton, & Hisrich, 1998) and private family businesses (Arosa et al., 2010) do indeed benefit from the strategic insights of outside board members. When private family businesses appoint outside board members, these outsiders can take an active role in contributing to the strategic direction of the business. They can offer unvarnished and independent opinions regarding strategic tactics, means, and execution, helping owner–managers become more aware of the causes of setbacks and the persistence of these causes. Formally stated:

**Proposition 3b.** *Outside board members will be positively associated with private family firm owner–managers' perceptions of the persistence of the cause of a setback, which subsequently will dampen their perceptions of the probability of future success.*

#### 4.4. Perceived value of future success

Having considered how outside board members may influence the antecedents of owner managers' perceptions of the probability of future success, we now discuss their influence on owner–managers' perceptions of the value of future success. The perceived value of future success, another antecedent of escalation of commitment portrayed in Fig. 1 (Staw, 1981), refers to owner–managers' anticipations regarding the returns (economic, social, or other) to be generated through the successful implementation of a given strategy.

The owner–managers of private family firms are particularly prone to biased perceptions of the value of future success because they assess the value of courses of action based on the priorities of both the family and the business. As mentioned above, one of the main differences between the owner–managers of private family firms and those of other types of organizations is the high amount of non-financial and emotional value they derive from their businesses (Astrachan & Jaskiewicz, 2008). Sources of non-economic utility include providing prerequisites to family members, pursuing time honored activities in the name of family tradition, and other behaviors, which sometimes come into conflict with efficiency and productivity. In fact, poor prioritization of business and family objectives is known to result in stagnation (Miller, Le Breton-Miller, & Scholnick, 2008) and can ultimately threaten the wellbeing of both the family and the business.

In addition to having to juggle the priorities of the business and the family, owner–managers may also misattribute value to successful completion of certain courses of action due to orientations instilled in them by founders, who are centrally important to shaping the future of the family business (Kelly et al., 2000; Sonfield & Lussier, 2004). Conforming to the objectives and methods of the founder is commonly seen as “the right thing to do” and so it can reinforce owner–managers' perceptions of the value of pursuing some courses of action over others.

Since devotion to the founder and non-financial family objectives seem likely to bias owner–manager's appraisals of the value of successfully completing some actions, we propose that involvement of outside board members decreases owner–managers' expecta-

tions of value. This is due in part to the fact that outside board members tend to have access to a wide range of information from the environment (Boyd, 1990; Pfeffer & Salancik, 1978), which is likely to broaden and improve the perspectives of insiders (e.g., family members). Without such support, private family businesses often rely heavily upon, and perceive value in, the strategies proposed by a single or small core of owner–managers (Feltham et al., 2005). These key decision makers are highly esteemed and they influence the mindsets, motives, values, goals, and attitudes of other top managers in the organization (Kelly et al., 2000). They are central to both the business and family systems of the private family business, which makes it harder for insiders to objectively assess the value of the strategies they propose. When outside board members contribute to strategic decision-making, owner–managers (and other family members) are likely to evaluate a wider array of alternatives and to encounter utility trade-offs between alternative courses of action. They can become more aware that each alternative is likely to have different risks and returns (Baird & Thomas, 1985).

For example, given resource constraints, a private family firm seeking to increase sales might need to choose between the option to spend money introducing existing products into a new geographic market and the option to invest in R&D to develop more attractive products that customers are more likely to purchase. Predicting the value of such alternatives involves complex analytical and subjective assessments of the anticipated costs and benefits. The voice of outside board members can inform these assessments (Dalziel, Gentry, & Bowerman, 2011; Mullins & Forlani, 2005) and help private family businesses to improve the accuracy of their perceptions regarding the value of implementing a given strategy. Outside board members can also caution owner–managers of private family businesses against blind allegiance to costly R&D projects (Schmidt & Calantone, 2002), established customer relationships, and resources originally developed by the firm's founder (Kelly et al., 2000). Their independent perspective is likely to reduce internal biases (e.g., loyalty to tradition or overly optimistic assessments of the value of successfully implementing strategies) and thereby reduce the likelihood of escalation of commitment. Accordingly, we submit:

**Proposition 4.** *Outside board members will be negatively associated with private family firm owner–managers' perceptions of the value of future success.*

## 5. Discussion

In this paper we draw upon escalation of commitment reasoning and resource dependence theory to explain how owner–managers of private family businesses can receive and employ resources (e.g., knowledge, advice and counsel) from outside board members to aid their businesses. As discussed above, private family businesses are often very dependent on a single or small core of owner–managers to make key strategic decisions. While this can be beneficial and efficient, it exposes private family firms to certain limitations. One of these is the tendency of private family business owner–managers to rationalize setbacks, believe that success is “just around the corner”, and escalate their commitment to a failing course of action, which is known to have negative effects on performance in nonfamily firms (Daily & Dalton, 1994; DeTienne et al., 2008). In this paper we outlined how the involvement of outside board members can help private family firm owner–managers to avoid escalation of commitment.

Employing resource dependence logic, we described how outside board members both influence the antecedents, and moderate the processes, that lead to escalation of commitment in private family businesses. We started by illustrating how the vetting of potential courses of action between owner–managers

and outside board members exonerates owner–managers of some of the responsibility for a failed decision, spreading weight for the failure over multiple people and lessening owner–managers' motivation to justify a failed decision. We then explained how cooperation in the decision making process between outside board members and owner–managers can increase owner–managers' feelings of security and outside constituents' estimation of the legitimacy of a private family business, lessening the pressure on owner–managers to feel and demonstrate competence by justifying a failed decision. Next, we explored how outside board members' unvarnished assessment of the strategic position of a private family firm can temper owner–managers' optimism regarding the company's own strengths and weaknesses and the likelihood of future success in implementing a particular course of action. Finally, we examined how outside board members' broader access to information from the environment can help to reduce owner–managers' overly optimistic perceptions of the value of implementing a particular course of action by increasing the rigor with which value is calculated and encouraging the consideration of alternate courses of action.

In utilizing Staw's (1981) theoretical model for escalation of commitment to clarify the process by which outside board members can add value to family firm decision making, we address calls of family business scholars to draw on existing theories from the management literature to develop more rigorous theoretical models (Chrisman, Chua, & Sharma, 2005; Sharma, 2010) which clarify the processes by which value is created in family businesses. Our extension of both escalation of commitment and resource dependence logic also addresses calls to enrich and expand the theories from which family business scholarship draws (Zahra & Sharma, 2004). We additionally address recent calls by family business scholars to apply new theoretical frameworks focused on psychological processes (Pieper, 2010), emotional aspects of goal setting (Debicki, Matherne, Kellermanns, & Chrisman, 2009), environmental scanning (Ibrahim, Angelidis, & Faramarz, 2008), and the role of boards (Astrachan, 2010; Ibrahim et al., 2008) to deepen our understanding of the unique value creation processes which occur in family firms.

### 5.1. Future research directions

By laying out a solid theoretical framework for the influence of outside board members on escalation of commitment behavior in private family firms, this paper points to a number of interesting avenues for future research. These include managerial and board-specific factors, individual and situational differences, family-specific factors, and methodological issues.

#### 5.1.1. Managerial & board-specific factors

Future research could look at some of the managerial and board-specific factors which are particularly likely to influence escalation of commitment. For example, scholars could consider whether the size and composition of the top management team influences the proposed model. Empirical researchers could build upon grounded theory (e.g., Blumentritt et al., 2007) to investigate whether top management teams dominated by outsiders are more or less receptive to, and in need of, the input of outside board members. Scholars might also give specific consideration to independent and affiliated outsiders on boards of advisors and boards of directors of family firms (Arosa et al., 2010), including outside service providers such as lawyers, accountants, and management consultants, who are known to serve on boards and to provide input to strategic decisions (Hillman et al., 2000). In keeping with experimental research (e.g., Kadous & Sedor, 2004), we suspect that while the close cooperative nature of board usage has the potential to discourage the major antecedents of escalation

of commitment, outside service providers (not serving on the board) may also be helpful in tempering enthusiasm for suboptimal courses of action. It would also be interesting to evaluate the influence of the incentives and compensation provided to board members on our propositions (Hillman & Dalziel, 2003), to consider the relationship between escalation of commitment and agency problems among family members (Beasley, Carcello, & Hermanson, 1999; Schulze et al., 2001, 2003), and to examine insights and concepts from the board process literature (e.g., board formality, roles, meeting frequency, goal setting, and the use of success metrics) insofar as they can improve the effectiveness of boards (Huse, Minichilli, & Schoning, 2005; Minichilli, Zattoni, & Zona, 2009). For example, we suspect that the relationships proposed above will be even stronger when the board is properly incentivized, when board processes are more formalized, and when the board meets more frequently. We also suspect that the amount of time invested in discussing particular topics in board meetings (such as weaknesses in the efficacy of resources, causes for setbacks, or alternate potential courses of action) and subsequent planning activities (Blumentritt, 2006) will impact the intensity of the relationships proposed above. However, future studies should also weigh the costs of increasing organizational complexity by having and operating a board (e.g., board meeting fees, stock options) against the benefits of avoiding escalation of commitment.

Finally, future research could measure the specific human capital and social capital of board members. We suspect that different types of board member human and social capital are more helpful in particular escalation situations. For example, board members with a background in sales & marketing might be more helpful in defusing escalation of commitment to dead end product/market niches, whereas board members with a finance background might be more effective in helping family business owner-managers to alter commitment to failing sources of capital or inefficient debt leverage ratios.

#### 5.1.2. Individual & situational differences

Future research could also investigate some of the individual and situational differences which may influence the likelihood of escalation behavior. In terms of individual differences, an external locus of control may increase owner-managers' propensity to blame others thereby reducing personal responsibility, motivation to justify previous actions, and escalation of commitment (Singer & Singer, 1986). Need for achievement may make owner-managers more receptive to the input of outside board members who could help them to improve results, whereas autonomy and preferences for paternalistic or autocratic leadership may lessen receptivity to outside direction (Kets de Vries, 1993) and heighten the likelihood of escalation of commitment.

From a situational perspective, and given the influence of culture and socialization processes on strategic decision making (Staw, 1981), it would be interesting for future research to examine whether differences in national cultures influence the board-escalation of commitment relationships we articulated in our model. For example, we expect that societies with high levels of uncertainty avoidance (Hofstede, 1980) may have particularly high norms for consistency in decision making and benefit especially from the challenges to the status quo which outside board members can offer. Another promising avenue for future research would be to examine differences in the influence which outside board members have on escalation of commitment behavior for private family firms at different stages in their life cycle (Lynall, Golden, & Hillman, 2003). In keeping with extant research, we suspect that generational stage may exhibit a curvilinear relationship with the propensity to escalate commitment (Bammens, Voordeckers, & Van Gils, 2008). For example, first-generation and third- or later-generation family

firm owner-managers may face a lack of questioning of their opinions and a motivation to justify "pet projects", respectively, leading to higher propensity to escalate commitment. Finally, because governance mechanisms are known to have substitutive and interactive effects on firm outcomes (Rediker & Seth, 1995), future research would do well to examine the influence of different types of ownership structures (e.g., dynastic vs. control vs. market models) (Lane et al., 2006) on the impact of board members on escalation of commitment behavior in family firms.

#### 5.1.3. Family-specific factors

Another avenue for future research might be to examine the effects of boards on escalation of commitment among family firms and between family and nonfamily firms. For example, scholars have identified several different types of family structures (e.g., authoritarian, community, absolute and egalitarian nuclear families) (Sharma & Manikutty, 2005), which may all influence the relationship between outside boards and escalation of commitment behavior by family firms. We suspect, for example, that family firms which have a strong culture of "father knows best" or a strong commitment to family tradition may have a greater need for outside board members to help them to avoid escalation of commitment and to challenge norms in favor of pursuing novel strategies and innovative solutions. The role of outside boards in helping such firms to juggle both family and business priorities warrants further investigation, particularly since actions that help the business in the short-run may sometimes come at a cost to the family and vice versa. We also believe that decision makers in family businesses with high levels of internal conflict (e.g., sibling rivalry, marital discord) (Kellermanns & Eddleston, 2004) may have a greater need to demonstrate competence within the organization (e.g., to other family members) and are, therefore, more prone to escalation of commitment. Future studies might also consider the effectiveness of boards in reducing escalation of commitment in private vs. public family businesses, since the boards of public family businesses must also rally the support of institutional investors and other shareholder activists in addition to influencing family owners and managers. Given the unique characteristics of family businesses, it would also be interesting to compare the influence of outside boards in reducing escalation of commitment in family vs. nonfamily firms.

#### 5.1.4. Methodological issues

Finally, future research should address some of the methodological limitations of prior research in both the escalation of commitment and resource dependence traditions. A majority of the empirical work in escalation of commitment has focused on lab experiments and, to a limited extent, field experiments, which have featured simplistic  $1 \times 2$  or  $2 \times 2$  experimental designs, and there has been limited use of survey research in this area (McCarthy, Schoorman, & Cooper, 1993). Additionally, research on escalation of commitment has more often than not conceived of escalation as an individual-level construct. Study of escalation of commitment in family businesses, often conceived of as a group-level construct, brings up interesting issues with respect to the selection of potential measures in the context of family businesses. Differently than research on escalation of commitment, a great deal of work in the rich empirical tradition of resource dependence theory has focused on macro-level variables and correlations which are prone to a "black box" view of organizations. Examination of the procedural and behavior applications of the resources provided by outside board members within firms, and path analysis of the mediating effects of these resource applications on the correlations between board characteristics and firm performance, has been largely neglected. We believe that measurement of mediating constructs, such as those outlined in

escalation of commitment theory, could enrich understanding of the causal mechanisms which drive the macro-level correlations identified by resource dependence theorists between outside board members and firm strategy and performance.

## 6. Conclusion

In summary, this paper addresses the susceptibility of private family firm owner–managers to escalation of commitment and its associated costs. We contribute to both the family business literature and the resource dependence literature by examining the way in which private family firm owner–managers can work together with outside board members to employ the resource of board member advice and counsel to avoid escalation of commitment. Given the predominance of private family firms around the globe and the potential for escalation of commitment to lead to business underperformance and bankruptcy, we believe that the development of empirically supported prescriptions for avoiding this behavior could represent a contribution of significant importance to scholars, practitioners, and policy makers. We look forward to pursuing this research.

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