COGNITIVE ANTECEDENTS TO FINANCIAL ESCALATION OF COMMITMENT IN SMALL, FAMILY-OWNED ENTREPRENEURIAL FIRMS (SUMMARY)

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COGNITIVE ANTECEDENTS TO FINANCIAL ESCALATION OF COMMITMENT IN SMALL, FAMILY-OWNED ENTREPRENEURIAL FIRMS

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Principal Topics

The tendency of decision-makers to “stay the course” and continue with a course of action that is failing to accomplish optimal financial results is a phenomenon known as financial escalation of commitment (Staw, 1976, 1981; Staw & Ross, 1978). Persevering with an initially unsuccessful course of action sometimes leads to eventual financial success, but it often leads to chronic financial under-performance (DeTienne, Shepherd, & Castro, 2008) and/or bankruptcy (Daily & Dalton, 1994). It is surprising how often different decision-makers facing the same type of decision – subject to the same constraints and privy to the same information – come to different conclusions about what course of action is most likely to produce optimal financial results. This research presents new empirical results which demonstrate how certain cognitive antecedents help to explain why some small, family-owned entrepreneurial firms are more profitable than others.

Method

This study is based on a sample of 219 small, family businesses all across the United States contacted in cooperation with several industry associations and with the help of a survey research vendor. It applied stepwise hierarchical regression analysis, along with backward stepwise Wald logistic regression analysis, to test its hypotheses.

Results and Implications

Respondents who demonstrated more open-mindedness to different opinions, assistance, advice, and possibilities (r = -.412, p < .001), who demonstrated more recognition of base rate frequency (r = -.224, p < .002), or who demonstrated more recognition of mean regression (r = -.382, p < .001) also demonstrated lower levels of financial escalation of commitment in the study’s decision-making scenarios. Respondents who were more involved with their industry associations also demonstrated less financial escalation of commitment in the decision-making scenarios (r = -.129, p < .053). This second result was only the case if respondents also demonstrated more recognition of mean regression. Firms in which respondents demonstrated a preference for ownership, control, and family involvement in their dominant logic showed above average revenue growth for their industries (Wald = 4.755, P < .029, B = -.841, Exp(B) = .431). This final result was only the case if respondents ignored the loyalty of a handful of key customers. If they fixated on this loyalty, they showed below average revenue growth for their industries.

1 The dependent variable was financial escalation of commitment, operationalized as below average revenue growth. Thus, Exp(B) values below 1 indicate above average revenue growth

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