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A Betrayal in the Family: An Inhibitor or Stimulus for Business Model Innovation?

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ABSTRACT

Academic Summary: Business-focused betrayals perpetrated by family members in managerial and decision-making positions can devastate family businesses, questioning their assumptions about trust and how they conduct the business. Such betrayals ignite tensions between family and business logics, potentially causing paralysis and protection of the status quo or compelling innovation of its strategies and operations—its business model. We draw on two contrasting perspectives to examine this tension: the threat rigidity thesis suggests that betrayal inhibits business model innovation by inducing fear of failure (an emotional familial response); organizational learning theory suggests that betrayal stimulates business model innovation by prompting knowledge development (an impassive business response). Relying on a sample of family businesses from India ($n=221$) and Bangladesh ($n=289$), our results support the latter perspective. Our study provides a theoretical foundation for the relationship between business-focused betrayal and business model innovation, revealing new mediating mechanisms and new insights into when and why the coupling of family and business logic prompts or impedes change.

Managerial Summary: Betrayal within family businesses resulting from the actions of family members in leadership or decision-making positions can strike at the heart of trust and stability. Such moments often provoke powerful emotional reactions that lead to defensiveness, strained relationships, and resistance to change. Yet our findings reveal a more complex reality: betrayal can become a powerful catalyst for business model innovation. Rather than inherently damaging the family business, betrayal can disrupt entrenched routines, compel family business leaders to reassess priorities, and push family firms to explore new strategies, new practices, and innovative business models. The key to this innovation lies in reframing betrayal not as a threat, but as an opening for organizational learning, innovation, and growth. By acknowledging this dual nature, family firms can transform betrayal-induced adversity into momentum. Doing so enables them to navigate emotional familial responses with impassive business responses that drive innovation to restore the strength, resilience, and competitiveness of the family business in time.

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1 | Introduction

Trust in familial bonds is a cornerstone of family businesses, their operations, success, and socioemotional wealth and well-being (Gómez-Mejía et al. 2011; Hu et al. 2022; Sundaramurthy 2008). Family members are in a delicate and sensitive position of trust in family businesses. For example, their desire for trustworthy relationships across all facets of business activity (Cesinger et al. 2016; Deferne et al. 2023) cultivates a distinct reliance on familial trust. This reliance often results in family members taking on key roles in strategy, management, and decision-making. Due to a combination of ownership or family status, family members routinely enjoy control rights over the firm's assets and decision-making rights over its activities (Carney 2005). Classically, scholars depict family members of family businesses as thoughtful stewards, sharing a distinct familial social capital (Herrero and Hughes 2019; Herrero et al. 2022) and exhibiting high psychological ownership (Eddleston et al. 2012). These qualities allow trustful relations among family members in the family business to develop rapidly (Hoffman et al. 2006; Sorenson and Bierman 2009). That trust is taken for granted—part of the family effect—and a basis for family business advantage. Families trust their relatives, often neglecting or even foregoing strong governance structures (PwC 2023). However, this reliance creates a distinct yet frequently overlooked consequence for the family business: a vulnerability to betrayal by its family members.

Betrayal—being unfaithful to relational expectations (Ferrara and Levine 2009)—among family members is a uniquely excruciating experience. Family businesses are highly susceptible to opportunistic and dysfunctional behaviors from their family members. These include the Fredo effect (Kidwell et al. 2012), ostracism (Ye et al. 2021), deviant and destructive behaviors (Cooper et al. 2013), opportunism (Schulze et al. 2001), incompetence (Kidwell et al. 2012), and relationship conflicts (Cooper et al. 2013). The emotional bonding among family members tends to fray over time (Labaki 2007), leading to diverging interests (Calabrò et al. 2017; Zellweger and Kammerlander 2015) and unique types of agency costs (Schulze et al. 2001). Family businesses are fertile grounds for backstabbing, sibling rivalries, and family grievances, rendering them vulnerable to betrayals that violate the expected standards of conduct by their family members. The contrast between familial trust as residual and enduring (Long 2011) and the emotional cauldron representing family bonds (Labaki and D'Allura 2021) amplifies their vulnerability to betrayal by family members and the impact of that betrayal on the family business. Trust breaches are felt far more acutely in family businesses as they evoke stronger emotional responses and cause greater harm compared to non-family firms (de Groote and Bertschi-Michel 2021; Deferne et al. 2023). These breaches can potentially change business behavior—for better or worse (Hu et al. 2022). Considering this stark tension, it is surprising how little we know about the impact of business-focused betrayal by family members of a family business on subsequent business-related behaviors. Given that betrayals originating from family members provoke complex familial emotions, understanding the role of betrayal in activating or impeding their innovative action is crucial. Specifically, betrayal may either generate rigid reactions, characterized by a defensive posture and conservation, or prompt transformative responses, such as stimulating business model innovation, involving significant changes in how firms create, deliver, and capture value. Thus, investigating betrayal as an inhibitor or stimulus to business model innovation addresses an important gap in understanding how internal crises triggered by business-focused betrayal can shape organizational choices to illuminate pathways through which family businesses deal with crises. Consequently, we seek to answer the research question: Does business-focused betrayal by family members in family businesses inhibit innovation by reinforcing the status quo, or does it serve as a catalyst for business model innovation?

To address the puzzle posed by family member betrayal, we focus on business-focused betrayals perpetrated by family members involved in the ownership and management of the family business. By having access to vital business-sensitive information and playing a pivotal role in business decision-making, their business-focused betrayal(s) can cause acute harm to the strategies and operations of the business. Business-focused betrayals strike at the heart of the family business's strategies and operations—its business model, defining how it delivers value to its customers, enticing customers to pay for that value, and converting those payments into profit (Teece 2010). We theorize that family member business-focused betrayal causes a paradoxical moment where two mutually exclusive mediation mechanisms may occur. First, the emotional effect of betrayal induces a perception of threat, a deep sense of vulnerability (Hayward et al. 2022), strong enough to cause fear of failure (Bagherian et al. 2025) and compel the conservation of personal, family, and organizational resources, ushering in responses designed to preserve the status quo of its business model. Second, in defiance, the betrayal of the family member acts as a stimulus for organizational learning that prompts knowledge development (Chirico and Salvato 2016), resulting in changes to strategy and operations ushered in by business model innovation. Although mutually exclusive, these two scenarios reveal the complexity of theorizing the effect of family member betrayal in family businesses precisely because of the unification of emotional (family) and rational (business) logics and systems—a feature absent in non-family businesses.

Relying on a sample of family firms from India ($N=221$) and Bangladesh ($N=289$), our research contributes to the family business innovation literature in three ways. First, extant research portrays trust among family members as an unequivocal strength, emphasizing how familial bonds foster loyalty, reduce transaction costs, and enhance collaboration (Eddleston et al. 2010). We challenge this assumption because it overlooks the complexities inherent in familial trust. Our study reveals that while trust can be a unifying force, it can be a double-edged sword. An uncritical reliance on familial trust creates blind spots, making family firms highly susceptible to betrayals by family members in ownership and management positions. Understanding betrayal is crucial because it highlights the potential pitfalls of unchecked trust and underscores the need for monitoring and oversight. By acknowledging the possibility of betrayal, our research contributes to the field by challenging the monolithic view of trust as an inherent advantage of

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family firms. Second, we provide a theoretical foundation for the relationship between business-focused betrayal and business model innovation. Our theorizing compares two theoretically valid explanations for how business-focused betrayals perpetrated by family members affect how the family business delivers value to its customers and profits from that value. The first explanation, based on the threat rigidity thesis (Staw et al. 1981), predicts that business-focused betrayal by family members makes family businesses less willing to innovate their business models. The emotional shock of such betrayal prompts a fear of failure that ossifies the family as a mediation mechanism, provoking efforts to guard personal, family, and organizational resources against further depletion. This entrenchment increases inaction. The second explanation, based on organizational learning theory, predicts that family members' business-focused betrayal provokes defiance and efforts to inoculate the family business. The new learning prompted by such betrayal intensifies adaptive behavior, representing efforts to innovate the firm's business model to render the impact of the family member's business-focused betrayal inconsequential to its future. Our empirical evidence supports the latter perspective. Third, we bring theoretical completeness to the conundrum of why some family businesses innovate more than others (Scholes et al. 2021). We uncover how family businesses use external information sources to cope with betrayal and innovate their business models. We reveal knowledge development as a mediator of the relationship between family members' business-focused betrayal and business model innovation. Fourth, our study provides new insights into when and why the coupling of family and business logics prompts or impedes change (Gerlitz et al. 2023; Reay et al. 2015). The family business is acutely vulnerable to family member betrayal. While this form of deeply personal betrayal might paralyze a family business, we show that betrayal motivates change, prompting organizational learning over inertia. Our study extends recent efforts to unlock theorizing about emotion and innovation in family businesses (Hu et al. 2022).

2 | Theoretical and Conceptual Foundations

2.1 | Business-Focused Betrayal and Business Model Innovation

Betrayal is characterized by the sense of being harmed by trusted individuals. Betrayal occurs when the betrayed party believes that the violator party has taken advantage of them (Reina and Reina 2009). It is an aversive behavior in that the offending individual, or betrayer, voluntarily violates mutual expectations in their relationship with the betrayed, signifying that the betrayer no longer values the relationship. Most betrayals are unexpected, and their effects are long-lasting, irreversible, and harmful (Leonidou et al. 2018). A family business member maintaining a direct relationship with a competitor, disclosing confidential information to competitors, or failing to assist the family in favor of personal gains are some examples of business-focused betrayal (Mattingly et al. 2010).

Business-focused betrayals strike at the core of the family firm's strategies and operations, questioning the ongoing viability of its business model. Business models serve as structural frameworks (Spieth et al. 2014), outlining the architecture through which businesses create, capture, and deliver value (Foss and Saebi 2018; Teece 2010). Business model innovation entails the innovation of a system of products, services, information flow, or technology vital for long-term survival and competitive advantage (e.g., De Massis et al. 2015). In family businesses, their attachment to familial and business dimensions and aversion to risks that threaten the accumulation of family financial and nonfinancial wealth significantly influence their approach to business model innovation (Chrisman et al. 2015). Business model innovation entails more profound changes to established routines and mental models. Studies repeatedly find that family businesses prefer maintaining the status quo and supporting tradition (Miller and Le Breton–Miller 2014) rather than exploring more novel innovation strategies (Scholes et al. 2021).

2.2 | The Relationship Between Betrayal and Business Model Innovation: Competing Mechanisms

We present two competing perspectives on the effect of business-focused betrayal perpetrated by family members in managerial and decision-making positions on business model innovation in family businesses—betrayal as inhibiting innovation and betrayal as stimulating innovation. Both pathways are made theoretically plausible because of the tensions between family and business logics, familial emotion and business dispassion, and entrenchment and adaptation as stimuli for pursuing or suppressing innovation. Figure 1 illustrates our model.

2.2.1 | Betrayal as an Inhibitor of Business Model Innovation

Business-focused betrayals harm a family business's existing strategies and operations, an effect that is amplified when family insiders with access to sensitive and competitively important information, decision rights, and control over assets perpetrate those betrayals. According to threat rigidity theory, when firms encounter threats to their strategic and operating viability, they adopt a conservative, inward-looking tendency (D'Aveni 1989). The perceived threat is associated with more cautious capital management and conservation of the firm's resources (Chattopadhyay et al. 2001). These effects are potentially stronger in family businesses because betrayal, as a threat, jeopardizes the family's financial capital and socioemotional wealth (Hu et al. 2022). The centrality of socioemotional wealth amplifies the gravity of this threat—the nonfinancial dimensions of the business that family members value, including legacy, reputation, identity, bonds, and harmony—prompting conservation efforts (Shi et al. 2022). Family businesses typically prioritize preserving socioemotional wealth. This caution deters innovation, particularly when innovating can escalate vulnerability, cause resource loss, or threaten existing relationships. Thus, family businesses would then be expected to rigidly select well-known alternatives instead of innovating when experiencing a betrayal by a family employee.

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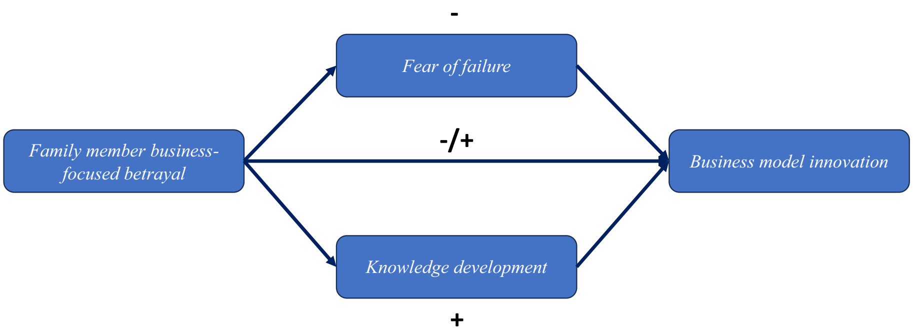

FIGURE 1 | Conceptual framework.

A business-focused betrayal perpetrated by a trusted family business member is a traumatic event. The personal resources of betrayed family members are also severely taxed when a rogue family business member entrusted with managerial and ownership rights violates their trust. Threats to family members' material, social, and psychological resources (their personal resources) make them much more likely to adopt defensive strategies to safeguard their remaining resources. The remaining family business members are then much more likely to avoid further strain on their resources (Sirmon et al. 2008), including changing the fundamentals of the business because changing the business model acts as an explicit admission of the damage caused by the betrayer. Consequently, we hypothesize that:

H1. *Family member business-focused betrayal negatively influences business model innovation.*

The complex emotion and trauma resulting from a close family member's business-focused betrayal are likely to instill a fear of failure. Under the threat rigidity logic, we expect the mediating role of fear of failure in the family business as an underlying mechanism explaining why family member business-focused betrayal negatively affects business model innovation. Fear of failure is defined as a "negative affective reaction based on cognitive appraisals of the potential for failure" (Cacciotti et al. 2020, 1). It is a multidimensional concept reflecting (1) a fear of the potential failure of the idea on which the family business relies on, (2) a fear of the opportunity cost associated with dedicating time or resources to a family business that may fail following the betrayal, and (3) the inability to execute the tasks needed to ensure the success of the family business (Cacciotti et al. 2020). The fear of failure is a cognitive and affective state (Scherer et al. 2001), exacerbating behaviors associated with conserving personal resources. It is also a negative emotional and cognitive state that leads to a less favorable view of opportunities (Welpe et al. 2012).

A family business member is subject to additional stress and anxiety when a fear of failure takes hold (Gregory et al. 2022), restricting or even paralyzing information processing among the remaining family business managers and the business itself. For example, fear of the very idea and ideals on which the family business is based on failing will increase risk aversion, causing the family firm to miss out on opportunities for innovation (Hiebl 2013). The fear of the opportunity cost associated with changing in the face of the uncertainty brought on by betrayal can increase conservative decision-making. The family firm will be more reluctant to invest in new projects, technologies, or ventures under these conditions. Concern over the potential failure to transform the family business successfully compels the remaining family members to reinforce its stability rather than pursue any further profound and risky changes. Therefore, we predict:

H2. *Fear of failure mediates the negative relationship between family member business-focused betrayal and business model innovation.*

2.2.2 | Betrayal as a Stimulus for Business Model Innovation

While family businesses are typically more risk-averse, conservative, and less willing to innovate or change than their peers (Duran et al. 2016; Zahra 2005), more than 50% of the most innovative companies in Europe are family-controlled (Chirico et al. 2022). Further, many of the world's most innovative companies are family businesses (Chirico et al. 2025; Erdogan et al. 2020). Therefore, despite being cauldrons of emotion, it is not certain that threat rigidity will take hold when a family member's business-focused betrayal occurs. For example, Auger et al. (2019) highlighted the unique characteristics of family businesses, such as Groupe Savoie–Les Résidences Soleil, a family-owned Canadian business, that enable them to turn external shocks into growth opportunities. Unlike non-family businesses, family firms tend to maintain or even increase their R&D investments during economic downturns. This behavior is attributed to their long-term orientation and a reluctance to cut investments that may jeopardize their future competitiveness. It underscores the resilience of family businesses during crises and suggests adaptive behavior that the threat rigidity thesis overlooks.

Contrary to an emotional familial response and the entrenchment predicted by threat rigidity theory, family member business-focused betrayal might stimulate new adaptive behavior based on organizational learning theory (an impassive business response). Instances of betrayal—such as severe violations of trust among family members—force family firms to confront their conservative tendencies, potentially prompting a reassessment of their strategies and spurring innovation to recover or redefine the business. Research on significant external disruptions shows that family businesses tend to reevaluate their strategies and implement innovative solutions at

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such junctures (Kleine et al. 2024). This suggests that acute internal disruptions, such as betrayal by family members, might prompt similar strategic reassessment and innovation within family firms. Consequently, when the family's legacy is at stake, family business owners may be driven to explore new opportunities to create new value for consumers, fueling business model innovation.

A family member's business-focused betrayal(s) may be viewed as an opportunity to reassess the firm's current strategies and develop innovative solutions to overcome the challenges posed by a business-focused betrayal (Alayo et al. 2019). Perceptions of threats and opportunities are critical drivers of business model adaptation (Saebi et al. 2017). While a threat perception induces family businesses to depend on known and well-learned behaviors (Shi et al. 2022), an opportunity framing encourages allocating resources to new initiatives and exploring new innovative approaches to doing business (Patel and Fiet 2011). The resulting adaptive behavior includes an increased commitment to adopting newer technologies and new ways to generate value in their value chain (Zahra 2018), investing in research and development, exploring new markets, or collaborating with external parties, all of which can contribute to business model innovation (Ciampi et al. 2021). Moreover, family businesses characteristically possess long-term orientation and resilience. These traits can facilitate a more measured and less emotional response to a family member's business-focused betrayal, focusing on long-term strategy rather than immediate emotional reactions (Chrisman et al. 2011). Therefore, while the breakdown of familial trust may be emotionally evocative, we counter-theorize that undergoing an acute adverse internal event may unlock the betrayed family members' innovative potential (Rondi et al. 2019), leading the family business to engage in "preference reversal" (Leppäaho and Ritala 2022) through business model innovation as an impassive business response:

H3. *Family member business-focused betrayal positively influences business model innovation.*

Organizational learning theory emphasizes the pivotal role of change in enabling firms to adapt and innovate. Learning is a process through which family members search for and develop new knowledge through experimentation, analysis, and experience (Zahra 2012). Organizational learning prioritizes intangible knowledge resources as the family firm's most strategically important assets for gaining or restoring competitive advantage (Hoskisson et al. 1999).

Drawing on organizational learning theory, we anticipate that a family member's business-focused betrayal disrupts established routines and norms, triggering an adaptive process that fosters learning and innovation (Konopaski et al. 2015; Moser et al. 2024; Soluk 2022). Adaptive learning and behavioral change arise from a disparity between expectations and actual outcomes following the betrayal event, driving the family business to seek new information and explore innovative solutions (Salvato and Corbetta 2013; Sosna et al. 2010). In this state, the family firm is more likely to reassess its approach to market opportunities, customer relationships, or internal processes, leading to significant business model changes (Eddleston and Kellermanns 2007).

For example, a business-focused betrayal exposes vulnerabilities that competitors might exploit. Family firms often rely on deeply embedded intangible knowledge accumulated over generations through family traditions, intergenerational mentorship, and long-term experience (Chirico and Salvato 2016; Chirico et al. 2022). When a family member betrays, family firms are then likely to turn to knowledge development, such as investing in intergenerational learning to transfer crisis management skills to the next generation. Doing so can lead family businesses to engage in proactive learning and innovation to strengthen their market position (Calabrò et al. 2019; Rondi et al. 2023) and protect their proprietary knowledge (Miller and Le Breton-Miller 2021). This approach safeguards the family business and mitigates the business effects of the family member's betrayal.

From an organizational learning perspective, family member business-focused betrayal intensifies adaptive behavior, strengthening its commitment to a learning culture that prioritizes continuous knowledge development (Brinkerink 2018; Kleine et al. 2024). This culture prompts more business model innovation as the family firm becomes more prone to refining and evolving its strategies and operations through new knowledge. Experiencing a family member business-focused betrayal highlights the need for the family business to become more agile and adaptable in the face of trauma (Zahra et al. 2008). By developing new knowledge despite a family member's business-focused betrayal, the family business reinforces that learning culture, foreshadowing an increase in business model innovation to strengthen its future viability. Consequently, we posit that a family member's business-focused betrayal can increase business model innovation through knowledge development as an underlying mechanism. Therefore, we predict:

H4. *Knowledge development mediates the positive relationship between family member business-focused betrayal and business model innovation.*

3 | Research Methodology

3.1 | Sample and Data Collection

Survey-based family business studies have repeatedly identified the reliance on a single-country research site as a significant limitation (e.g., Arzubiaga et al. 2019; Hu et al. 2022; Mostafiz et al. 2021). To overcome this limitation and achieve greater generalizability with our findings, we collected data from two similar Asian emerging economies. The study sample was collected from family businesses in India and Bangladesh. Family businesses are an integral part of the economy in both countries. According to the Economic Times of India in 2013, most of these family businesses are small and medium-sized enterprises (Mani 2021), amounting to around 1.3 million, employing 40% of the workforce (Economic Times of India 2013) and growing (Goyal et al. 2024) and contributing 79% of the national GDP annually (Times of India 2023). In addition, these SMEs are responsible for producing 45% of the manufacturing output and 40% of the total exports and creating many low-skilled jobs (Eddleston and Mulki 2021). Bangladesh represents similar characteristics. Over time, Bangladesh has transitioned from a state-controlled economy to a more open and market-based one

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by adopting market liberalization and deregulation programs. This has led to the emergence of family capitalism, where family-owned businesses constitute a large proportion of the economy (Sunon et al. 2022). Despite highly stratified social classes, the second generation is now coming of age or being promoted to take over their family's firms. However, some skeptics question whether these generations will be enthusiastic about leading their families' companies. This is a common concern among family businesses across different cultures and boundaries in Asia, whereby familial trust is central to a firm's continuity (Gupta et al. 2009). The founders or their heirs typically try to control most family firms, and ownership and power tend to remain within the family. In these contexts, family member betrayals can heighten concerns about failure and change their behavior. Consequently, this region provides an ideal context for investigating our research question.

Sample firms from India were derived from the Entrepreneurs India directories (Entrepreneur India 2023), and the sample from Bangladesh was collected from BD Business Finder (2023). A total of 19,388 firms were registered with the Entrepreneurs India directories, and 13,951 firms were registered with the BD Business Finder during the sample selection time. We randomly selected 5000 firms from the directories to contact. We sent emails to inquire about their willingness to participate in this research. Since no database or directories are available in Bangladesh and India to determine family business status, the research team investigated the concentration of control within a single family by following Zahra (2012). We examined (a) the percentage of the firm's capital (family ownership-share) held by the family and (b) the percentage of management positions occupied by family members (Zahra 2012). We considered a firm to qualify as a family business when a single family held 50% or more of the capital, and family members occupied at least 50% of the managerial positions. Our study employs stringent criteria, enabling us to confidently assert the presence of the family effect, characterized by high emotional bonding, an environment conducive to familial conflicts, and an increased likelihood of family member betrayal.

In total, we received 301 responses from family firms in Bangladesh and 238 family firms from India, indicating their willingness to participate in our research and satisfy our study's family business criteria. Two waves were used to collect data following Ahsan et al. (2022). During the first round in December 2022, we sent the questionnaire to the key respondents (Buccieri et al. 2020) to collect data on family business betrayal, knowledge development, and fear of failure. The data were collected from family business owners in top management roles, such as Director or CEO. We received 289 responses from Bangladesh and 221 accurate responses from India. In the first round, we also asked the respondents to introduce us to the firm's general manager or deputy general manager. In the second round, we collected the business model innovation data from the managers to control for social desirability bias (Zahra and Covin 1995) and simultaneity bias (Guide and Ketokivi 2015). We performed a non-response bias analysis using a t-test, assuming that the last 7% of responses were equivalent to non-respondents. We compared them against the first 7% of the dataset on the study variables (Armstrong and Overton 1977). We found no statistically significant difference between these two groups.

3.2 | Measures

Appendix 1 contains the constructs and their measurement items. All independent, mediating, and dependent variables' items were measured on a 7-point Likert scale ranging from 1 = strongly disagree/very few/not at all to 7 = strongly agree/very high/very frequently.

Family member business-focused betrayal (independent variable) was operationalized using six items sourced from Leonidou et al. (2018) and rephrased for the family business context. We used a lead-in statement to ensure our respondents were clear on the meaning of "family business member" for our study: Please select the choice that indicates engagement or disengagement with the following statements (1 = not at all; 7 = very frequently) in terms of running the business with other family business members (e.g., a family business member is a member of the family and has an ownership and/or management position in the family business).

Fear of failure (mediating variable) was operationalized using three dimensions: the potential of the idea (seven items), opportunity costs (seven items), and the firm's capacity to execute plans (seven items) (Cacciotti et al. 2020). Fear of failure has been conceptualized as a second-order latent formative construct in which the dimensions operate as compensatory dimensions to form the latent construct (Law et al. 1998).

Knowledge development (mediating variable) was operationalized through knowledge creation (eight items) and acquisition (five items) (de Ven 2007; Van de Ven and Johnson 2006). We source the knowledge creation variable from Su et al. (2013) and the knowledge acquisition variable from Mostafiz et al. (2025) and Hung and Chou (2013).

Business model innovation (dependent variable) was operationalized using five items from Ciampi et al. (2021). Sample items are: when necessary, we are able to reorganize our member network to improve our value proposition to our customers; we regularly consider innovative opportunities for changing our existing pricing models.

Nine control variables were included in this study. *Firm size* and *firm age* were operationalized by applying the natural logarithm (Cruz-González et al. 2014) to the number of employees (firm size) and its years in operation (firm age). *Environmental dynamism*, consisting of five items, was sourced from Kreiser et al. (2013) and Miller and Friesen (1982). *Munificence*, comprising four items, was obtained from Schultz et al. (1995) and Kreiser et al. (2013). A five-point Likert scale was used to rate the responses, where 1 indicated strong disagreement, and 5 indicated strong agreement. We controlled for each *country*, where 0 denotes Bangladesh and 1 denotes India. We controlled for *industry* by creating a dummy-coded variable (1 = service, 208 firms; 0 = manufacturing, 302 firms; Gielnik et al. 2012). Finally, we included three family business-specific control variables drawn from Zahra (2012): *family generations* (i.e., owned by 1st generation, owned by 2nd generation, or owned by 3rd generation, coded 1, 2, and 3, respectively), *ownership* (percentage of family ownership of the firm, that is, 50% to 74% and 75% to 100% of ownership, coded 1 and 2, respectively), and *management control*

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(percentage of family member in management, that is, 50% to 74% and 75% to 100% of control, coded 1 and 2, respectively).

4 | Analyses and Results

4.1 | Descriptive Statistics, Reliability, and Validity

Table 1 presents the correlation, mean values, standard deviation, normality, and multicollinearity results. The data exhibited a normal distribution, and the VIF (variance inflation factor) values indicated low levels of multicollinearity among the constructs. Firm age varied from seven to thirteen years, and firm size ranged from 18 to 82 employees. Table 1 also highlights the outcomes of the reliability and validity tests conducted using SPSS. Both the Cronbach Alpha and composite reliability values exceeded 0.70, establishing internal consistency (Hair et al. 2010). The average variance extracted (AVE) values for each construct surpassed 0.50, and the square root of AVE (diagonal values in Table 1) was greater than the corresponding correlations. Moreover, the standard loading values reported in Appendix 1 exceeded 0.70, and the AVE values were higher than the MSV values (Table 1). These findings confirm the reliability and validity of the measurements used in the study, demonstrating both convergent and discriminant validity (Fornell and Larcker 1981).

4.2 | Common Method Variance

We implemented several strategies to mitigate the impact of common method variance (CMV) in this study. First, we eliminated psychological separation barriers and incorporated redundant questions into the questionnaire, ensuring that respondents were unaware of the study's objectives by following the guidelines of Chang et al. (2010). Second, data collection occurred at two distinct time points, helping to control the ex-ante threat of simultaneity bias (Guide and Ketokivi 2015), minimizing CMV's effects. Still, we carried out the Harman single-factor test, and the first component accounts for less than 50% of the variance (21.38%). In addition, we conducted a single latent factor analysis, yielding results ($\chi^2=3285.791$, df $=991$, CMIN/df $=3.318$, RMSEA $=0.395$, CFI $=0.159$) that differ significantly from the four-factor confirmatory factor model ($\chi^2=739.102$, df $=427$, CMIN/df $=1.73$, RMSEA $=0.049$, CFI $=0.901$). Based on these findings, we concluded that the effects of CMV were minimal (Podsakoff et al. 2003).

4.3 | Measurement Invariance Assessment

Since we collected survey data from two countries, measuring invariance analysis should be performed before structural equation modeling (Vandenberg 2002). We followed the guidance of Byrne (2010) in conducting the invariance analyses in AMOS 24. We developed the configural model as our baseline model and examined configural, metric, scalar, partial invariance, and error variance invariance for each construct. We assessed the fit of the model using the χ^2 differences, significance, confirmatory factor index (NCI) differences, McDonald's NCI, and gamma hat differences. Table 2 shows that the χ^2 differences for all models are non-significant. In addition, none of the CFI differences is higher than 0.01 (Cheung and Rensvold 2002), and all the Δ gamma hat and Δ McDonald's NCI values are ≤ 0.001 and 0.02, respectively (Cheung and Rensvold 2002). The results establish invariance, and the configural, metric, scalar, partial, and error variance invariances for all items hold across both samples (Milfont and Fischer 2010; Putnick and Bornstein 2016). The items and the constructs are equally reliable across the samples, and the measures can be used to test our hypotheses (Whittaker 2016).

4.4 | Results

We used AMOS 24 to perform a two-step confirmatory factor analysis and structural equation modeling to test our competing perspectives and their respective hypotheses. Table 3 reports the path relationships and the model fit indices for the measurement and structural models. The results showed adequate model fit indices for all models. The effect of business-focused betrayals perpetrated by family members on business model innovation is positively significant ($\beta=0.063$, $p=0.026$).

Next, we performed bootstrapping (with 5000 re-samples) mediation analysis in AMOS 24, following the guidance of Anderson and Gerbing (1988) and Hayes (2018). The results showed that the direct effect of business-focused betrayals perpetrated by family members on fear of failure is non-significant ($\beta=0.011$, $p=0.537$), and the total effect of family member business-focused betrayal on business model innovation through fear of failure is not significant either ($\beta=0.133$, $p=0.277$). The indirect effect of family member business-focused betrayal on business model innovation through fear of failure is non-significant ($\beta=0.072$, $p=0.129$). Therefore, H1 and H2 are not supported.

The direct effect of family member business-focused betrayal on knowledge development is positively significant ($\beta=0.162$, $p=0.031$), and the total effect of family member business-focused betrayal on business model innovation through knowledge development is positively significant ($\beta=0.275$, $p=0.031$). The indirect effect of family member business-focused betrayal on business model innovation is positive and significant ($\beta=0.218$, $p=0.039$). Therefore, H3 and H4 are supported, establishing partial mediation. Additionally, the Sobel and Goodman tests were conducted to examine the mediation effect of knowledge development on the relationship between family business betrayal and business model innovation. The z score of the Sobel test is 4.937, $p<0.001$, and the Goodman test is 4.944, $p<0.001$. These suggest that knowledge development significantly mediates the relationship between family business betrayal and business model innovation.

Regarding control variables, firm size ($\beta=0.011$, $p=0.473$) and firm age ($\beta=0.017$, $p=0.584$) exhibit no significant effects on business model innovation. Environmental dynamism ($\beta=-0.026$, $p=0.139$) and munificence ($\beta=0.009$, $p=0.374$) have no significant effects. There are no country or industry effects ($\beta=0.019$, $p=0.459$; $\beta=0.008$, $p=0.842$, respectively). The family business-specific control variables do not show any effects on business model innovation either, with the coefficients

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TABLE 1 | Descriptive statistics, reliability and validity ($n = 510$).

Constructs	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Family member betrayal	**0.729**												
2. Fear of failure	0.238**	**0.738**											
3. Knowledge development	0.196**	0.186*	**0.709**										
4. Business model innovation (BMI)	0.236**	0.279**	0.221**	**0.720**									
5. Firm size	0.095	0.055	0.013	0.095	—								
6. Firm age	0.013	0.031	0.086	0.047	0.009	—							
7. Environmental dynamism	0.052	0.016	0.060	0.032	0.018	0.041	—						
8. Munificence	0.078	0.069	0.108	0.062	0.031	0.009	0.017	—					
9. Country	0.012	0.011	0.004	0.007	0.027	0.009	0.018	0.003	—				
10. Industry	0.006	0.010	0.009	0.002	0.001	0.011	0.008	0.006	0.005	—			
11. Family generation	0.062	0.039	0.006	0.031	0.011	0.014	0.003	0.021	0.016	0.002	—		
12. Family ownership	0.010	0.028	0.039	0.017	0.013	0.009	0.012	0.048	0.004	0.014	0.026	—	
13. Family management	0.004	0.018	0.005	0.011	0.038	0.041	0.010	0.009	0.014	0.028	0.002	0.032	—
Mean	6.17	5.15	5.93	5.91	33.96	9.49	4.871	4.545	0.459	0.407	2.543	1.804	1.248
Standard deviation	0.651	0.902	0.656	0.543	3.231	0.802	0.929	0.861	0.008	0.091	0.582	0.397	0.431
Skewness	0.368	0.736	0.953	0.975	—	—	—	—	—	—	—	—	—
Kurtosis	0.527	0.538	0.554	0.899	—	—	—	—	—	—	—	—	—
Cronbach alpha	0.782	0.737	0.775	0.703	—	—	—	—	—	—	—	—	—
Composite reliability	0.798	0.788	0.771	0.783	—	—	—	—	—	—	—	—	—
VIF	2.28	2.54	1.66	2.35	—	—	—	—	—	—	—	—	—
AVE	0.531	0.544	0.502	0.519	—	—	—	—	—	—	—	—	—
MSV	0.224	0.209	0.218	0.276	—	—	—	—	—	—	—	—	—

Note: Diagonal values are the square root of AVE values.
*$p < 0.05$.
**$p < 0.01$.

for family ownership (ß = 0.008, $p = 0.873$), family management (ß = 0.022, $p = 0.106$), and family generation ($\beta = 0.003$, $p = 0.771$) all non-significant.

4.5 | Robustness Analysis

We performed several additional analyses to verify the original results obtained in the structural equation modeling. First, we retested for mediation by converting the fear of failure into a first-order construct: (a) the potential of the idea, (b) opportunity cost, and (c) the firm's capacity to execute. Table 4 contains the results. None of the relationships is statistically significant. We did the same for knowledge development. The results reported in Table 5 show that knowledge creation and acquisition positively mediate the relationships between family business betrayal and business model innovation. Second, we performed a sub-sampling analysis, separating the Bangladeshi and Indian samples. Tables 6 and 7 contain the results. These results do not show any variation from the actual results obtained in the structural equation modeling.

4.6 | Post Hoc Analyses

We first performed three post hoc analyses to account for possible family business specificities. These are three moderated mediation models based on family ownership, family management, and family generation. To test the moderated mediation models, we performed 5000 resample bootstrapping structural equation modeling to compute conditional indirect effects. The moderation effect of family ownership is examined at three levels: more than 50%, more than 75%, and 100%. The results showed that the mediation effect of knowledge development becomes stronger as the

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TABLE 2 | Measurement invariance assessment.

M.	Model description	Gamma hat	Mc NCI	Δ chi-square (difference)	Δ df	Sig.	Δ CFI	Δ Mc NCI	Δ gamma hat
1	Configural invariance (baseline)	0.972394441	0.726606	—	—	—	—	—	—
2	Metric	0.973410116	0.730385	12.28903	7	0.19145	0.00300	0.00378	0.00102
3	Scalar	0.974424515	0.736327	12.24802	4	0.27560	0.00300	0.00594	0.00101
4	Partial invariance	0.973139977	0.722346	15.51401	4	0.18375	0.00400	0.01398	0.00108
5	Invar residuals; partial inv. intercepts (error)	0.972125278	0.707401	12.28409	9	0.19777	0.00100	0.01495	0.00101

Note: Δ Indicates differences.

level of family ownership increases. Specifically, the indirect effect of family member business-focused betrayal on business model innovation through knowledge development was significant at all levels of family ownership, with the strongest effect observed at 100% ownership. The conditional indirect effects are 0.112 and 0.326 for more than 50%, 0.141 and 0.338 for more than 75%, and 0.168 and 0.349 for 100%, which overlap slightly, suggesting some differences but not necessarily significant ones. The moderating effect of family management is assessed at the same three levels. The findings indicated that the mediation effect of knowledge development strengthens with higher levels of family management. The indirect effect was significant across all levels of family management, with the highest effect at 100% management. The conditional indirect effects are 0.105 and 0.315 for more than 50%, 0.133 and 0.332 for more than 75%, and 0.155 and 0.365 for 100%, again overlapping slightly, suggesting differences that are once again not definitively significant. The moderation effect of family generation is analyzed at three generational levels: first, second, and third generation (our sample represents three generations). Unlike family ownership and management, family generation does not significantly moderate the mediation effect of knowledge development. The indirect effect of family business-focused betrayal on business model innovation through knowledge development remained consistent across different generations, as indicated by the overlapping conditional indirect effects of 0.095 and 0.305 for the first generation, 0.085 and 0.295 for the second generation, and 0.075 and 0.285 for the third generation.

As a second test, we created two sub-variables of family members' business betrayal, with the first three items representing betrayal activities and the last three representing a loss of trust (see Appendix 1). The original results after separating the family members' business betrayal construct into betrayal activities and loss of trust variables hold. We identified partial mediation of knowledge development between family business member betrayal (activities and loss of trust) and business model innovation, consistent with our original results (Table 8).

5 | Discussion and Contributions

We answer an essential yet puzzlingly overlooked question in family business innovation research: Does business-focused betrayal by family members in family businesses inhibit innovation by reinforcing the status quo, or does it serve as a catalyst for business model innovation? We developed and tested two competing theories, uncovering the underlying mechanisms driving these opposing effects. The first perspective drew on threat rigidity logic and foresaw that family members' business-focused betrayal hinders business model innovation by instilling a fear of failure. This theory then anticipates that the betrayed family business will adopt a conservative, inward-looking tendency where personal, family, and organizational resources are entrenched to protect against further loss. The second perspective drew on organizational learning theory and predicted that business-focused betrayal perpetrated by family members stimulates business model innovation by activating new knowledge search and adaptive behavior. Knowledge development spurs new business model innovation to defy the betrayal and nullify its harm.

Our empirical findings support the organizational learning prediction, indicating that business-focused betrayals by family members of a family business are not entirely harmful to family businesses. These findings challenge the conventional monolithic view of trust in family businesses. Our study introduces an organizational learning theory, supported by empirical findings, to explain a unique phenomenon observed in family businesses. These firms are acutely vulnerable to betrayal by family members, often experiencing severe consequences from breaches of trust. Factors such as backstabbing, sibling rivalries, and family grievances make them fertile ground for emotional conflict. Trust breaches in family businesses are also more emotionally evocative and damaging than those in non-family counterparts (de Groote and Bertschi-Michel 2021; Deferne et al. 2023). This volatile cocktail should herald paralysis. However, our findings suggest that these breaches can ultimately lead to positive changes in the behavior of family businesses. While prior research highlights the fear of failure and loss in family business innovation (e.g., Hu et al. 2022), our study demonstrates how a trust violation—a business-related betrayal within the family—can trigger knowledge search and new adaptive behaviors, with knowledge development mediating the link between betrayal and business model innovation. By revealing how a traumatic event, such as a family member's business-focused betrayal,

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TABLE 3 | Results of path relationships ($n = 510$).

Path relationships	Types of effects	Outcome variable: fear of failure		Mediating variable: fear of failure outcome variable: BMI		Outcome variable: knowledge development		Mediating variable: knowledge development outcome variable: BMI	
		Coefficient	***p***	**Coefficient**	***p***	**Coefficient**	***p***	**Coefficient**	***p***
Family member betrayal	Direct	0.011	0.537	0.063**	0.028	0.162**	0.031	0.063**	0.033
	Indirect			0.072	0.129			0.218**	0.039
	Total	0.011	0.537	0.133	0.277	0.162**	0.031	0.275**	0.031
Fear of failure	Direct			0.026	0.448				
	Indirect								
	Total			0.026	0.448				
Knowledge development	Direct							0.239**	0.016
	Indirect								
	Total							0.239**	0.016
Model fit indices		Measurement model	Structural model	Measurement model	Structural model	Measurement model	Structural model	Measurement model	Structural model
x^2		0.783	0.735	0.713	0.754	0.737	0.782	0.742	0.756
Df		0.401	0.416	0.458	0.497	0.409	0.465	0.432	0.491
CMIN		1.951	1.766	1.567	1.520	1.801	1.681	1.722	1.539
GFI		0.917	0.929	0.901	0.903	0.908	0.902	0.900	0.907
INI		0.921	0.911	0.918	0.911	0.911	0.901	0.911	0.902
TLI		0.914	0.904	0.906	0.919	0.903	0.916	0.905	0.912
RMSEA		0.049	0.049	0.048	0.049	0.049	0.049	0.049	0.047
SRMR		0.033	0.034	0.033	0.038	0.036	0.033	0.028	0.038

Note: Coefficient is significant at critical ratio higher than 1.96 ($p < 0.05$). **$p < 0.01$, *$p < 0.05$.

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TABLE 4 | First-order construct of fear of failure ($n = 510$).

Path relationships	Types of effects	Mediating variable: potential of the idea outcome variable: BMI		Mediating variable: opportunity cost outcome variable: BMI		Mediating variable: firm's capacity to execute outcome variable: BMI	
		Coefficient	*p*	Coefficient	*p*	Coefficient	*p*
Family member betrayal	Direct	0.017	0.693	0.017	0.571	0.011	0.908
	Indirect	0.022	0.377	0.020	0.348	0.032	0.189
	Total	0.039	0.312	0.028	0.668	0.048	0.546

Note: Coefficient is significant at critical ratio higher than 1.96 ($p < 0.05$).

TABLE 5 | First-order construct of knowledge development ($n = 510$).

Path relationships	Types of effects	Mediating variable: knowledge creation outcome variable: BMI		Mediating variable: knowledge acquisition outcome variable: BMI	
		Coefficient	*p*	Coefficient	*p*
Family member betrayal	Direct	0.067**	0.028	0.140**	0.027
	Indirect	0.102**	0.036	0.182**	0.038
	Total	0.173**	0.018	0.329**	0.025

Note: Coefficient is significant at critical ratio higher than 1.96 ($p < 0.05$). $^{**}p < 0.01$, $^{*}p < 0.05$.

TABLE 6 | Sub-sampling analysis (Bangladesh, $n = 289$).

Path relationships	Types of effects	Outcome variable: fear of failure		Mediating variable: fear of failure outcome variable: BMI		Outcome variable: knowledge development		Mediating variable: knowledge development outcome variable: BMI	
		Coefficient	*p*	Coefficient	*p*	Coefficient	*p*	Coefficient	*p*
Family member betrayal	Direct	0.029	0.460	0.088**	0.013	0.185**	0.028	0.088**	0.013
	Indirect			0.016	0.236			0.167**	0.044
	Total	0.029	0.460	0.101	0.229	0.185**	0.028	0.256**	0.030
Fear of failure	Direct			0.029	0.573				
	Indirect								
	Total			0.029	0.573				
Knowledge development	Direct							0.344***	0.008
	Indirect								
	Total							0.344***	0.008

Note: Coefficient is significant at critical ratio higher than 1.96 ($p < 0.05$). $^{**}p < 0.01$, $^{*}p < 0.05$.

induces adaptive behavior (knowledge development) as a solution, the business model innovation that ensues provides new answers to the question of why some family businesses tend to be more proactive and resilient to shocks than others (Smith et al. 2023; Hadjielias et al. 2023). These findings attest to the resilience of family businesses and their enduring nature, helping to explain how they maintain continuity despite adversity and the ability to move forward after facing it (Conz et al. 2020).

Family firms are a melting pot of emotions, and our findings do not dismiss or diminish the emotional complexity that represents family bonds and the family business (Labaki and D'Allura 2021). Instead, our findings suggest the remarkable ability of family firms to respond defiantly to emotionally charged events, such as the betrayal of a family business member. To confirm this, we examine three moderated-mediated models in our post hoc tests to consider whether family ownership, family management, and family generation would

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TABLE 7 | Sub-sampling analysis (India, $n = 221$).

Path relationships	Types of effects	Outcome variable: fear of failure		Mediating variable: fear of failure outcome variable: BMI		Outcome variable: knowledge development		Mediating variable: knowledge development outcome variable: BMI	
		Coefficient	p	Coefficient	p	Coefficient	p	Coefficient	p
Family member betrayal	Direct	0.005	0.825	0.049**	0.016	0.201**	0.018	0.049**	0.017
	Indirect			0.031	0.362			0.152**	0.024
	Total	0.005	0.825	0.079	0.113	0.201**	0.018	0.202**	0.038
Fear of failure	Direct			0.009	0.735				
	Indirect								
	Total			0.009	0.735				
Knowledge development	Direct							0.199***	0.006
	Indirect								
	Total							0.199***	0.006

Note: Coefficient is significant at critical ratio higher than 1.96 ($p < 0.05$). **$p < 0.01$, *$p < 0.05$.

moderate the mediation effect of knowledge development and business model innovation. We found that the mediation effect of knowledge development becomes stronger as family ownership and management levels increase; generation had no effect. Past research acknowledges that family ownership and family management are important in the nomological network of effects that explain the innovative behavior of family businesses (Calabrò et al. 2021; Chrisman et al. 2015; Scholes et al. 2021). However, family firms are rife with agency costs where the family effect compromises the ability of family owners and senior managers to monitor and punish improper conduct by family members (e.g., Schulze et al. 2001). Our study provides an alternative explanation for how the family effect of trust breaches is associated with new organizational learning. Business-focused betrayal stimulates business model innovation as new knowledge develops through the family's adaptive behavior. Our additional post hoc tests lead us to conclude that increasing levels of family ownership and family management reinforce the knowledge development or learning required for business model innovation.

5.1 | Theoretical Contributions

Our research findings extend the body of knowledge on family firm innovation in four ways. First, our study challenges and reevaluates the conventional belief that trust is an unequivocal asset in family businesses. While existing research emphasizes the benefits of familial trust (Eddleston et al. 2010), this view overlooks the complexities and potential vulnerabilities associated with assuming trust prevents improper actions. Implicit, unquestioned trust can lead to blind spots, making family firms susceptible to opportunistic behaviors and betrayal (Schulze et al. 2001; Sundaramurthy 2008). By investigating the dynamics of betrayal, our research highlights the potential pitfalls of unchecked trust, advocating for a more critical and balanced perspective on trust management. Our study calls on scholars to critically assess trust within family businesses and acknowledge both its benefits and potential drawbacks.

Second, we provide a theoretical foundation for the relationship between family member business-focused betrayal and business model innovation within family businesses. Our theorizing compares two theoretically reasonable explanations for how business-focused betrayals perpetrated by family members affect how the family business delivers value to its customers and profits from that value. Based on threat rigidity theory, the first explanation predicts that family members' business-focused betrayal makes family businesses less willing to innovate their business models. The emotional shock of such betrayal prompts fear that ossifies the family, provoking efforts to guard personal, family, and organizational resources against further depletion. Yet, despite the literature pointing firmly toward the conservative tendencies of family firms (Scholes et al. 2021), we find no evidence for this threat rigidity logic. Conversely, based on organizational learning theory, the second explanation foresees that business-focused betrayal by family members provokes defiance and efforts to inoculate the family business from its effects. The new learning prompted by such betrayal stimulates adaptive behavior to innovate the firm's business model, rendering the impact of the family member's business-focused betrayal inconsequential to its future. Our findings validate this second prediction, revealing that scholars must move beyond normative assumptions of family firm behavior to consider how events and an emphasis on organizational learning shift the family firm along the emotion–rationality continuum.

The coupling of business and family logic (Gerlitz et al. 2023; Reay et al. 2015) illustrates the complexity of theorizing the effect of family member betrayal in family businesses. The unification of emotional (family) and rational (business) logics and systems—a feature absent in non-family businesses—explains why family businesses are plagued by conflicts, rivalries, identity, and differences where relationships are perpetually at risk

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TABLE 8 | Results of path relationships with sub-variables of family business member betrayal ($n = 510$).

Path relationships	Types of effects	Outcome variable: fear of failure		Mediating variable: fear of failure — OUTCOME variable: BMI		Outcome variable: knowledge development		Mediating variable: knowledge development — Outcome variable: BMI	
		Coefficient	***p***	**Coefficient**	***p***	**Coefficient**	***p***	**Coefficient**	***p***
Family business member betrayal (activities)	Direct	0.011	0.843	0.030	0.191	0.288**	0.012	0.158***	0.008
	Indirect			0.095	0.732			0.062**	0.039
	Total	0.011	0.843	0.162	0.535	0.288**	0.012	0.211**	0.025
Family business member betrayal (loss of trust)	Direct	0.066	0.076	0.045	0.479	0.104**	0.045	0.164**	0.018
	Indirect			0.012	0.614			0.029**	0.029
	Total	0.066	0.076	0.078	0.302	0.103**	0.045	0.199**	0.042
Fear of failure	Direct			0.018	0.112				
	Indirect								
	Total			0.018	0.112				
Knowledge development	Direct							0.220**	0.011
	Indirect								
	Total							0.220**	0.011

Note: Coefficient is significant at critical ratio higher than 1.96 ($p < 0.05$). $^{**}p < 0.01$, $^{*}p < 0.05$.

(De Massis and Rondi 2020; Kellermanns and Eddleston 2004). Family businesses respond to betrayals by developing new knowledge, driving innovation in operations, and creating wealth. This reframes the conversation on fractured trust from restraint to adaptive behavior. Harnessing this knowledge for business model innovation safeguards the family business against betrayals driven by business interests. This has the added effect of making the family business fitter for the future. In essence, by initiating knowledge development, the adaptive behavior that takes place isolates the effect of such a betrayal. We advance organizational learning theory in family businesses by revealing an adaptive behavior lens to unravel the dynamic between family-driven betrayals and business model innovation.

Third, we bring theoretical completeness to the conundrum of why some family businesses innovate more than others (Scholes et al. 2021). We reveal knowledge development as a mediator of the relationship between family members' business-focused betrayal and business model innovation. Our results provide new valuable insights into the intersection of business-focused betrayals and innovation by revealing the functions of learning, adaptive behavior, and business model change in a process activated by betrayal-induced shock. Our findings suggest that family businesses can better handle betrayal and refine their business model innovation through knowledge development, thereby revealing a silver lining to betrayal-induced disruptions. Therefore, while betrayal by family members of a family business may commonly be considered as a root cause for a failing organization (Kellermanns and Eddleston 2004), our insights suggest this assumption may be too general or hasty.

Fourth, our study offers new insights into when and why the coupling of family and business logics prompts or impedes change (Gerlitz et al. 2023; Reay et al. 2015). This is critically important because family businesses often face internal conflicts, leaving them particularly vulnerable to betrayal and breaches of trust. These challenges typically arise when family members in privileged positions gain access to sensitive, competitively significant information, decision-making authority, or control over assets. Family businesses present a fertile ground for conflicts because of competition among family members for leadership positions and managerial control (Kubíček and Machek 2020). Ample research exists on conflicts among family members, such as sibling rivalries or incompatibilities (Bettinelli et al. 2022; Lyons et al. 2024), parental favoritism (Haberman and Danes 2007), incompetence (Kidwell et al. 2012), and control over managerial roles (Sonfield and Lussier 2009). Moreover, family businesses are a melting pot of emotions, heavily reliant on familial trust for their operations and governance, while also being susceptible to emotionally charged behavior and breaches of trust. While family member betrayal as a deeply personal betrayal might paralyze a family business, we provide the missing logic needed to explain how betrayal motivates change, prompting organizational learning over inertia. Our study thereby extends recent efforts to unlock theorizing about emotion and innovation in family businesses (Hu et al. 2022).

5.2 | Implications for Practice

Family businesses experiencing family member betrayal can transform such challenges into opportunities for innovation

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rather than becoming entrenched in distrust. Instead of perceiving betrayal solely as a destructive force, our findings highlight the potential for channeling the resulting shock and vulnerability into knowledge development and business model innovation, enabling family businesses to recover and emerge stronger and more competitive. Leaders should be aware that fear, as an emotional response to a betrayal, can drive risk-averse behavior. While freezing investments or halting new projects might seem like safe short-term solutions, these actions could stifle innovation in the long run. When a family member breaches trust, such as by disclosing proprietary information or making self-serving decisions, the business should reflect on its existing vulnerabilities. For instance, consider a family-owned manufacturing firm that discovers a member leaking design specifications to a competitor. Leaders can seize this incident as an impetus to implement a formal 'lessons learned' process, introduce stringent documentation protocols, or establish a dedicated R&D or intellectual property division to safeguard and systematize knowledge sharing. Similarly, a retail conglomerate that uncovers a family member passing supplier information to a competitor might reassess its sourcing strategy, restructure supplier onboarding systems, and consider transitioning toward a more vertically integrated model. Leaders should frame betrayals as an opportunity to question long-standing assumptions and make innovative changes that can strengthen their competitive position.

Betrayals can prompt family businesses to adapt, fostering creative thinking and a willingness to experiment with new ideas, thereby enhancing business model innovation. Doing so relies on cultivating a learning culture. Continuous knowledge development should become an integral part of the organization. Formal monitoring and oversight of family members are necessary to prevent opportunities for betrayal. Counseling or mediation can help family members work through personal fallouts. Moreover, ongoing conversations about shared values and future goals can re-establish family cohesion in the aftermath of a family member's betrayal. By reframing betrayal as an opportunity for introspection and growth, family businesses can transform adversity into a driving force for knowledge development, innovation, and long-term success.

6 | Limitations and Future Research

We acknowledge the limitations of our study and the important opportunities it raises for new research into family business innovation. First, family businesses vary across cultural and institutional contexts. Cultural norms around trust, family obligations, and conflict may shape how severely business-focused betrayal is perceived or how swiftly or slowly it is addressed (if at all). Investigating the betrayal–innovation relationship in various cultural settings across different countries would help establish the broader generalizability of our model and establish whether the impact of betrayal is felt more acutely in some cultures than others. Research indicates that cultural elements such as trust, religion, family values, and collectivism significantly influence the behaviors, strategies, and performance of family businesses across different contexts (Amore and Miller 2024). For example, in collectivist societies like India and Bangladesh, family businesses operate within frameworks where familial ties and traditional structures are paramount. This cultural context leads to decision-making processes dominated by senior family members (Sakib 2023). While there may be resistance to external influences, there is also a deeper connection to internal values, fostering a strong sense of identity and purpose within the business (Sukamdani 2023), suggesting that familial betrayal will be acutely felt. While our study insights are rooted in the specific socio-cultural contexts of South Asia, they offer valuable perspectives for family businesses in other regions with similar collectivist orientations. Conversely, in more individualistic societies, where less traditional structures often govern family business relationships, the dynamics of betrayal and innovation may manifest differently. Therefore, we encourage applying our theoretical logic and model in comparative cross-cultural studies.

Second, we did not account for socioemotional priorities or other dimensions of the familiness construct that might influence the severity and trajectory of a business-focused betrayal's impact. For instance, high socioemotional wealth orientations could intensify family members' emotional responses and deepen their detrimental effects on decision-making. Relatedly, betrayal might generate other negative emotions like disappointment, vandalism, conflict, or frustration, rather than or in addition to fear. Are firms being held accountable by the media, government institutions, or society due to leaks concerning issues such as bribery and corruption, political contributions, lobbying, money laundering, parallel imports, or any form of fraudulent activity? We recommend research into additional facts.

Third, our data does not capture the magnitude of business-focused betrayal or whether that magnitude dissipates over time, relatively quickly or slowly, or wanes (or worsens) as time heals (or exacerbates) familial wounds. Thus, a temporal component capturing business-focused betrayal's immediate, spatial, and long-term impact is desirable in future studies to track specific behavioral changes (such as hypocrisy) among family business leaders and the business practices of family firms, such as introducing or abandoning innovative projects over the short or long term. We call for longitudinal qualitative or quantitative studies (e.g., secondary data) to examine these questions.

Fourth, scholars can differentiate between accidental betrayal, where an instigator unintentionally violates the expectations of the betrayed party and shows regret for their actions, versus intentional betrayal, where an instigator deliberately violates the expectations of the betrayed party. Future research could explore how forgiveness, regret, and reparations influence the relationship between business–focused betrayal and innovation within family firms. Such investigations can reveal whether family firms are inclined or not to forgive and grant second chances within their ranks, shedding light on how familial bonds interact with improper actions.

7 | Conclusion

We advance family business research by introducing and testing a theoretical model that links family member betrayal to business model innovation while uncovering the mechanisms behind their conflicting relationship. We develop and test two competing

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perspectives: (1) betrayal as an inhibitor of business model innovation based on threat rigidity logic, and (2) betrayal as a stimulus for business model innovation based on organizational learning theory. Our findings support the second perspective, demonstrating that betrayal serves as a catalyst for business model innovation, with knowledge development acting as the mediating mechanism. Our study challenges existing assumptions about trust in family businesses to motivate the potential significance of betrayals perpetrated by family members. This study is one of the first to establish a theoretical framework for understanding how family business member betrayal can shape business model innovation. Our findings underscore the importance of understanding the darker aspects of family business relationships, particularly betrayal, and their potential impact on business model innovation. It offers practitioners insights into navigating the complexities of family relationships in the business context. Our theoretical model provides researchers and practitioners with a framework to understand how to use a negative event (family member business-focused betrayal) to the family firm's advantage. We call on innovation and family business scholars to now go further to examine how frayed emotional bonds incite or impede innovation behaviors.

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Ethics Statement

The authors have read and agreed to the Committee on Publication Ethics (COPE) international standards for authors.

Conflicts of Interest

The authors declare no conflicts of interest.

Data Availability Statement

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

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Appendix 1

Measurement Items

Constructs and measurement items	Standard loadings ($n = 510$)	Standard loadings (Bangladesh)	Standard loadings (India)
Family member business-focused betrayal			
1. We have caught a family business member disclosing confidential information to competitors.	0.717	0.710	0.776
2. Whenever a family business member finds an opportunity to do so, s/he is disloyal to us.	0.781	0.719	0.770
3. Our confidence in this family business member has been undermined because of him/her attempting to build new customer base from our existing customers.	0.742	0.754	0.705
4. This family business member has often let us down with his/her dishonest behavior.	0.759	0.717	0.781
5. We have lost faith in this family business member as a result of our experience of the working relationship.	0.713	0.737	0.764
6. This family business member has often failed to offer expected assistance in times of great need.	0.737	0.787	0.719
Knowledge development			
Knowledge creation			
1. We meet frequently to discuss work-related ideas and new developments.	0.730	0.730	0.766
2. We do not have difficulty getting together to exchange new ideas and developments.	0.763	0.756	0.804
3. We are always available to discuss new ideas or developments.	0.711	0.787	0.727
4. We feel free to contact anyone to discuss new ideas or developments.	0.756	0.745	0.776
5. We are proficient at combining and exchanging ideas to solve problems or create opportunities.	0.796	0.711	0.748
6. We do a good job of sharing ideas to come up with new ideas, products, or services.	0.803	0.772	0.723
7. We have learned to effectively pool ideas and knowledge.	0.729	0.769	0.785
8. We often exchange and combine ideas to find solutions to problems.	0.716	0.745	0.736
Knowledge acquisition			
1. We often acquire valuable/unique/diverse knowledge from outside for our use.	0.774	0.727	0.756
2. We regularly search for external ideas that may create value for us.	0.774	0.719	0.742
3. We have a sound system to search for and acquire valuable/unique/diverse knowledge and intellectual property.	0.761	0.726	0.795
4. We proactively reach out to external parties for valuable/unique/diverse knowledge on products/services.	0.795	0.721	0.792
5. We tend to build greater ties with external parties and potential stakeholders.	0.770	0.708	0.731
Fear of failure			
Potential of the idea			
1. ...That this idea won't be successful.	0.770	0.722	0.744
2. ...That there is no need for our product/service out there.	0.806	0.715	0.708
3. ...That the idea is not good enough for investors.	0.771	0.780	0.733

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Constructs and measurement items	Standard loadings ($n=510$)	Standard loadings (Bangladesh)	Standard loadings (India)
4. ...That this is not a valuable business idea.	0.706	0.770	0.768
5. ...That no one will be interested in the product/service.	0.787	0.749	0.770
6. ...That this business idea is too difficult to implement.	0.720	0.726	0.801
7. ...That there won't be a market for the product/service.	0.802	0.722	0.779
Opportunity costs			
1. ...Of losing my work-life balance.	0.711	0.778	0.728
2. ...Of missing important events of my life because of my business.	0.721	0.703	0.794
3. ...Of not being able to spend enough time with my family and friends.	0.742	0.726	0.745
4. ...Of not being able to spend time on other income producing endeavors.	0.779	0.743	0.793
5. ...That the money spent on this business could be used elsewhere.	0.792	0.733	0.783
6. ...Of having to choose between more secure and less secure job opportunities.	0.722	0.738	0.754
7. ...That running this business is taking my time away from other activities.	0.746	0.730	0.752
Firm's capacity to execute			
1. ...Of the organization's ability to execute the business plan.	0.733	0.759	0.740
2. ...Of the organization's ability to exploit this business opportunity.	0.778	0.704	0.724
3. ...of the organization's ability to overcome technical challenges.	0.714	0.794	0.707
4. ...Of the organization's ability to make enough sales.	0.802	0.706	0.786
5. ...Of the organization's ability to meet client expectations.	0.757	0.725	0.735
6. ...Of the organization's ability to deliver upon promises.	0.757	0.711	0.787
7. ...Of the organization's ability to develop the product/service.	0.759	0.739	0.793
Business model innovation			
1. When necessary, we are able to carry out massive internal reconfigurations to enhance our overall value proposition to our customers.	0.782	0.708	0.713
2. When we sense an opportunity, we are quick at re-organizing our operating processes.	0.792	0.714	0.738
3. When necessary, we are able to reorganize our member network to improve our value proposition to our customers.	0.789	0.771	0.772
4. New opportunities to serve our customers are quickly understood.	0.779	0.713	0.757
5. We regularly consider innovative opportunities for changing our existing pricing models.	0.773	0.733	0.761

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Nazha Gali is currently an Assistant Professor of Strategy and Entrepreneurship at Odette School of Business, University of Windsor and a Research Faculty at the Institute for Research on Innovation and Science (IRIS), University of Michigan, Ann Arbor. She completed her PhD in Management and Entrepreneurship from Durham University Business School, UK, and was awarded the Outstanding Thesis Award. She has worked on diverse research projects and published in top-tier journals, such as *Entrepreneurship Theory and Practice*, *British Journal of Management, Technological Forecasting and Social Change*, and so on. She is an expert in mixed research methods, as well as econometric and secondary data analysis. She has published in peer-reviewed academic journals and presented her work at international and national conferences. She is an Associate Member of the Academy of Management and a Member of the Impact Scholar Community.

Farhad Uddin Ahmed is an Assistant Professor at Maynooth University, Ireland. He earned his PhD in International Business from Trinity College Dublin. Ahmed's research focuses on the intersection of strategy, entrepreneurship, and international business, particularly the role of institutional and entrepreneurial factors in the early internationalization of firms from emerging markets. He also held academic positions at Brunel University London, Monash University, and completed postdoctoral fellowships at Dublin City University. He received several awards, including the Emerald Literati Award 2020 and Best Paper Award at the British Academy of Management Conference 2022. His research has been published in top-tier journals such as *International Business Review*, *R&D Management, Management International Review, International Marketing Review, Asia Pacific Journal of Management, and Entrepreneurship & Regional Development*. He is also a Fellow of the Commercial Education Society of Australia (FCES), recognizing his contributions to business education.

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