



Is the future static or dynamic? The role of culture on escalation of commitment in new product development

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ABSTRACT

Escalation of commitment in new product development has been studied extensively for the last four decades but the impact of culture on the escalation phenomenon remains largely unexplored. This study investigates how culture impacts the decision to escalate or deescalate commitment to new products. Americans are analytic thinkers whereas Chinese tend to be holistic thinkers. When it comes to decision making, analytic thinkers focus on field independent and abstract factors and believe that future is linear and static, whereas holistic thinkers focus more on contextual factors and believe that future is dynamic and nonlinear. Hence, Chinese are more likely to escalate their commitment relative to Americans on receiving a negative performance report in the new product development process. A lab experiment using weekend MBA students and managers was used to test this underlying hypothesis. The findings confirmed that analytical thinkers use fewer factors than holistic thinkers in making new product decisions, and that Chinese managers are more likely to escalate their commitment relative to American managers. The decision to escalate or de-escalate was moderated by perceived product innovativeness.

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1. Introduction

New products are critical to the long-term success of industrial firms in the face of increasing competition from home and abroad, the rapid pace of technological change, and increasingly turbulent markets (Cooper & Kleinschmidt, 1988, 1991; Nijssen & Frambach, 2000). In the context of industrial markets, Hutt and Speh (2013) report that “best practice” firms derive 48% of their sales and 45% of their profits from products commercialized within the past five years. However, the success rate of new products is far from satisfactory; product failure rates have been variously reported in the range of 40% to 90% (Sivadas & Dwyer, 2000; Srinivasan, Pauwels, Silva-Risso, & Hanssens, 2009).

The failure of new products has been attributed to several causes, including lack of market assessment, product defects, inadequate launch efforts, and poor screening evaluation. One main and extensively studied reason for failure is the escalation of commitment, defined as persisting in a failing course of action in the product development process (Staw, 1997; Staw & Ross, 1987). Despite the voluminous literature on escalation of commitment, the role played by culture in escalation of commitment remains largely unexplored. Individuals from diverse cultures use different values, assumptions, and meanings with which to base their decisions on whether to escalate or deescalate commitment (Moscovici, 1984; Shweder, 1995). Cross-cultural research on escalation

of commitment, though limited, suggests that culture plays a significant role in determining the level of commitment to a particular course of action. For instance, Greer and Stephens (2001) found that Mexican subjects were more likely than their U.S. counterparts to escalate their commitment to a failing course of action and that they were also more confident in their decision to escalate. Nakata and Sivakumar (1996) argue that cultural factors such as individualism, power distance, masculinity, uncertainty avoidance, and Confucian dynamics influence the new product development process. In the broader decision making context of risk-taking, Tse, Lee, Vertinsky, and Wehrung (1988) observe significant differences in decision outcomes among executives from China, Hong Kong, and Canada.

Understanding managerial decision making within the new product development (NPD) context is vital from a micro as well as macro perspective. New products are essential to a firm's ongoing sustainability, but are fraught with high costs and risks (Fu, Richards, Hughes, & Jones, 2010). Srivastava, Shervani, and Fahey (1999) have noted that NPD is one of three core business processes and an important driver of shareholder value. From a macro perspective, different regions of the world report varying degrees of success in new product development and commercialization. The *Product Development and Management Association's* 2012 Comparative Assessment Study reports that North American firms have higher success rates for NPD than European and Asian companies (Markham & Lee, 2013). Yet, sales and profits from new products are the highest in Asia (38.9% and 36.7% in Asia vs. 28% and 28.2% in North America, and 29.2% and 31.5% in Europe). The

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same study reports that North American firms need only 6.4 ideas for one NPD success whereas in Asia, 14.9 ideas are needed. These figures suggest that while Asian firms are somewhat less successful in spotting candidates for NPD, the new products that do prove successful attract handsome rewards in the marketplace. While several factors such as firm size, formalization of NPD process, and stage of the market's economic development may account for these discrepancies, cultural factors impacting the NPD decision makers' thought processes may also be a contributing factor. Yet, the role of culture in NPD still remains largely unknown.

In today's increasingly global business environment, understanding the role of culture in NPD becomes particularly pertinent. Developing new products for global markets often involves leveraging and coordinating broad creative capabilities and resources diffused across geographical and cultural boundaries (De Brentani & Kleinschmidt, 2004). McDonough, Kahn, and Barczak (2001) report that 52% of companies in their study had used or were using global teams to develop new products, and that one of every five new product development (NPD) teams in respondent firms was global. Markham and Lee (2013) report that around 35% of the over 450 firms they surveyed in 2012 used globally dispersed teams for new product development. While multicultural teams could be thought of as being more creative and thus likely to develop more and better alternatives to a problem than monocultural teams, they also have to deal with relatively greater behavioral issues in course of managing the project (e.g., conflict resolution, lack of cohesiveness, and the challenge of trust building; McDonough et al., 2001). Comprehending the effects of culture on the NPD decision-making process thus becomes crucial.

Previous research has established that East Asians (e.g., Chinese, Japanese, and Koreans) employ holistic, long-term, and nonlinear thinking whereas Westerners (e.g., Americans and Germans) employ analytical, short-term, and linear thinking (Ji, Nisbett, & Su, 2001; Ji, Peng, & Nisbett, 2000; Kühnen, Hannover, & Schubert, 2001; Liang & Kale, 2012). Chinese managers view the future as dynamic and ever-changing and therefore put less emphasis on the present situation when extrapolating the future. In contrast, U.S. managers largely believe that the future is a continuation of the present and past, and thus predictable; which would cause them to put more emphasis on the current situation. This difference in envisioning the future will impact decisions regarding escalation of commitment.

Product innovativeness is considered to be a critical factor explaining the success or failure of new industrial products (Abratt & van Altna Lombard, 1993; Cooper, 1979; Kleinschmidt & Cooper, 1991; Link, 1987). However, the relationship between product innovativeness and commitment escalation remains has received scant scholarly attention. We seek to address this gap. Our research has two main objectives: (1) to investigate whether and how culture (analytic vs. holistic thinking) influences decision-makers' evaluation of new products; and (2) to examine whether the degree of product innovativeness moderates the effect of cultural variables on new NPD decisions.

2. Theoretical background

2.1. Escalation of commitment

Over the last fifty years, social psychologists and economists have investigated the phenomenon of escalating commitment wherein decision makers intensify their commitment to a failing course of action (cf. Brockner et al., 1986; Schmidt & Calantone, 2002; Staw, 1976, 1981; Staw & Ross, 1987). People continue to invest time, money, and self-identities into ineffective policies and strategies, products and services (Brockner et al., 1986). Past research has uncovered three sets of factors that impact escalation of commitment — project-related factors, psychological factors, and social/organizational factors (Staw, 1997; Staw & Ross, 1987).

2.1.1. Project determinants

Project determinants, including the objective features of a project and broader economics of the investment situation, are the most important drivers of escalation (Staw, 1997). Presence of sunk costs, i.e., past investment in money, effort, or time (Arkes & Blumer, 1985; Whyte, 1993), level of sunk costs (Arkes & Blumer, 1985; Garland, 1990), project completion effect (Conlon & Garland, 1993), project development status (Garland, Sandefur, & Rogers, 1990; McCain, 1986; Schmidt & Calantone, 1998), responsibility for initiating a failing course of action (Boulding, Morgan, & Staelin, 1997; Staw, 1976; Staw & Fox, 1977), characteristics of the project (e.g., high or low innovative products; Schmidt & Calantone, 1998), and value of salvage or amount of closing cost (Northcraft & Wolf, 1984) influence escalation of commitment.

2.1.2. Psychological determinants

Psychological determinants researched in the commitment literature include cognitive factors, personality, and emotions. Cognitive psychological factors researched thus far include whether decisions makers have to/want to justify themselves (Staw, 1976; Teger, 1980), whether they set a mental budget to track investments (Heath, 1995), and whether project-related information or feedback is framed positively or negatively (Brockner, Rubin, & Lang, 1981). Of these, self-justification seems to be the most dominant and widely supported determinant (Brockner, 1992). Studies examining the effect of personality on commitment escalation have found that social anxiety (Brockner et al., 1981), self-esteem (Knight & Nadel, 1986), illusion of control (Taylor & Brown, 1988) and self-efficacy (Whyte, Saks, & Hook, 1997) have a significant impact on escalation behaviors. Conversely, traits such as self-consciousness (Brockner et al., 1981), risk-taking, Machiavellianism, tolerance for ambiguity (Teger, 1980), the repression-sensitization dimension, and internal-external locus (Singer & Singer, 1986) have no significant impact on escalation propensity. Emotions also influence escalation behaviors. Decision makers are more likely to deescalate to escape from the unpleasant emotions associated with escalation situations (Wong, Yik, & Kwong, 2006). Anticipated regret about NPD withdrawal is positively related to the escalation of commitment (Wong & Kwong, 2008) while post-escalation regret reduces the subsequent escalation (Ku, 2008).

2.1.3. Social and organizational determinants

Escalation of commitment is seldom an individual decision but a multiparty event (Staw, 1997). Factors such as external justification and face-saving (Fox & Staw, 1979; Tse et al., 1988), accountability and decision visibility (Kirby & Davis, 1998; Simonson & Staw, 1992), psychological connection to the earlier decision-makers such as perspective taking, shared attributes, and interdependent mindsets (Gunia, Sivanathan, & Galinsky, 2009), and competition against others (Rubin, Brockner, Small-Weil, & Nathanson, 1980; Teger, 1980) have been found to influence escalation behaviors.

2.2. Analytic and holistic thinking

Scholars across a variety of disciplines have observed differences in thinking patterns between people from East Asian societies (e.g., China, Korea, and Japan) and those from Western societies (e.g., the United States and Great Britain). Specifically, East Asians have a holistic mode of thinking, characterized by an "orientation to the context or field as a whole, including attention to the relationship between a focal object and field, and a preference for explaining and predicting events on the basis of such relationships" (Nisbett, Peng, Choi, & Norenzayan, 2001, p. 293). In contrast, Westerners have an analytic mode of thinking, defined as "detachment of the object from its context, a tendency to focus on attributes of the object in order to assign it to categories, and a preference for using rules about the categories to explain and predict the object's behavior" (Nisbett et al., 2001, p. 293).

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