



Disentangling sunk-costs and completion proximity: The role of regulatory focus



Adam P. Barsky*, Michael J. Zyphur

The University Of Melbourne, 198 Berkeley St, Carlton 3053, Australia

HIGHLIGHTS

- Escalation research has generally failed to account for motivational context.
- Regulatory focus appears to shape decision makers' motivational priorities.
- Proximity to completion moderates the effect of regulatory focus on escalation.
- Promotion focused people are likely to escalate when projects are almost complete.

ARTICLE INFO

Article history:

Received 3 June 2015

Revised 11 April 2016

Accepted 23 April 2016

Available online 27 April 2016

Keywords:

Escalation of commitment

Regulatory focus

Decision making

ABSTRACT

Why do some people escalate commitment to a project that is unlikely to succeed? Existing research shows that people tend to escalate when prior expenditures (e.g., sunk costs) are high, whereas other research suggests that people tend to escalate when a project nears completion, regardless of prior expenditures. In this paper, we argue that decision-makers have diverse goals driven by regulatory foci that represent alternative motivations for escalation. Specifically, people who regulate their behaviour towards achieving gains (i.e., a promotion focus) are influenced more strongly by proximity to project completion than those who focus on the presence or absence of losses (i.e., a prevention focus). Across empirical studies using different operationalizations of regulatory focus, we show that increased promotion focus, but not prevention focus, exacerbates escalation behaviour as a project nears completion. Our findings highlight the importance of accounting for individual motivations when designing interventions to curb escalation behaviour.

© 2016 Elsevier Inc. All rights reserved.

1. Introduction

People sometimes find themselves locked in a losing course of action wherein they invest valuable resources to a cause even as success becomes increasingly unlikely (Sleesman, Conlon, McNamara, & Miles, 2012; Staw & Ross, 1987). Commonly called 'escalation of commitment' (EOC), examples of this phenomenon include the Iraq and Vietnam Wars, the Shorham Nuclear Power Plant disaster and the collapse of Enron, all of which illustrate the substantial social costs of commitment to losing courses of action (see Ross & Staw, 1993). To guard against EOC, organizations and policy makers typically focus on situational interventions such as increasing accountability (e.g., McNamara, Moon, & Bromiley, 2002; Staw, Barsade & Koput, 1997). However, effective interventions must also account for the 'broad motivational context' (Molden & Hui, 2011: 9) that shapes the idiosyncratic goals of decision makers (Higgins, 2002).

Although research shows that people consider contextual information such as prior losses and investments when justifying resource expenditures in the process of EOC (e.g. Arkes & Blumer, 1985; Brockner, 1992; Cunha & Caldieraro, 2009), motivational context may influence people's tendencies to escalate their commitment to a previously chosen albeit failing course of action. For instance, Molden and Hui (2011) argued that people who are oriented towards pursuing nurturance-related survival needs (i.e., a promotion-focused motivational orientation; Higgins, 1998) feel less driven to justify prior losses and are less vulnerable to EOC than those who pursue security-related survival needs (i.e., a prevention-focused motivational orientation). Yet, a closer examination of the priorities of promotion-focused individuals suggests that the need to justify prior expenditures is insufficient to explain their EOC because, by definition, a promotion focus implies regulating behaviour around the presence or absence of gains rather than attempting to account for a loss.

Alternatively, based on classic 'task-tension' research showing that motivation to complete a task increases as the task nears completion (e.g., Lewin, 1935), Conlon and Garland (1993) proposed that projects may take on a 'life of their own' as they progress towards completion,

* Corresponding author.

E-mail addresses: abarsky@unimelb.edu.au (A.P. Barsky), mzyphur@unimelb.edu.au (M.J. Zyphur).

regardless of their other features such as profitability. In addition, as individuals get closer to completing a project, they experience an inflated sense of certainty and associated positive anticipatory emotions (Harvey & Victoravich, 2009). Thus, in addition to the expenditure of resources, decision-makers are more likely to escalate as proximity to completion increases (e.g., Boehne & Paese, 2000). Indeed, in their meta-analytic review, Sleesman et al. (2012) found that completion proximity accounted for most of the effect of sunk-costs on EOC.

This effect leads to the question of whether completion proximity is likely to affect promotion and prevention focused individuals differently. There are at least three reasons to think that it may. First, completion proximity more closely aligns with the motivational priorities of promotion focused individuals than sunk costs. Regulatory focus theory proposes that promotion focused individuals should concentrate on approaching matches to desired ends, with an inherent drive to capture as many existing opportunities as possible (Higgins, 1998). While the presence of sunk costs implies accepting a certain loss if escalation does not occur, completion proximity represents how close or far one is from achieving a gain which is consistent with the priorities of promotion focused individuals. Second, escalation of commitment may be considered an approach-oriented strategy for achieving a goal as it involves a more eager form of exploration and greater risk taking (Crowe & Higgins, 1997; Pham & Avnet, 2004). Consistently, using an arm flexation task, Förster, Higgins and Idson (1998, Study 1) found that as completion proximity decreased, strategic approach-motivation increased more for people in a promotion focus than for people in a prevention focus. In this paper we argue that promotion-focused individuals' decisions to escalate may be a function of their motivation to complete a project and accrue a gain, which increases as they get closer to completion. This assertion contrasts with the idea that promotion-focused individuals are less concerned with justifying prior losses than prevention-focused individuals and would, therefore, be less influenced by changes in sunk costs (e.g., Molden & Hui, 2011).

In sum, our approach provides an important bridge between understanding the situational conditions that facilitate/attenuate EOC and the idiosyncratic goals and motivations that drive different decision-makers to escalate. Indeed, attending to motivational context shows how questions regarding the relative influence of sunk-costs or completion proximity are incomplete (see also Moon, 2001). A more thorough explanation of EOC requires understanding how such situational characteristics interaction with decision-makers' motivations to predict EOC. We now describe two empirical tests of this idea wherein we orthogonally manipulate sunk-costs and completion proximity to gauge their interactive relationship with regulatory focus. We predict that individuals closer to completion will increase escalation behaviour, and that promotion focused individuals will be particularly susceptible to this effect.

2. Experiment 1

2.1. Experiment 1 method

2.1.1. Sample, procedure and measures

A power analysis using a small effect size estimate ($d = .2$; Cohen, 1992) suggested that 280 participants (35 per cell) would be sufficient for power of .80. Of this 280, 27 participants were eliminated based on a lack of English proficiency as required to understand the instructions of the task and an additional 7 participants were eliminated because they chose not to 'invest' in the vignette project (see below). No analyses of any kind were done prior to the completion of data collection. The final sample was 246 students enrolled in undergraduate management courses at a large Australian university with a mean age of 18.9 years ($SD = 1.26$). 50% of participants were female, 75% were Australian, and 80% had been, or were currently, employed.

Participants were asked to carefully read, evaluate, and answer questions from a vignette based on Arkes and Blumer's (1985) 'Radar Blank Plane' case, which is often used to study EOC (e.g. Conlon & Garland, 1993; Moon, 2001). Participants played the manager's role and were told that they must make a decision regarding investment in a new technology. Participants were told that they would be making a decision regarding the company's investment in military hardware (i.e., a plane that would be invisible to radar). They were initially given the simple decision of whether or not to invest, having received reasonably favourable information regarding the likelihood of success and importance for the company. Prior to making the decision, they completed a brief written reflection intended to stimulate either a promotion or prevention focus.¹ Once they made the initial decision to invest, they were told that a year had passed and were given information about the progress of the project and the amount that had been invested. In addition, they were presented with negative information about the competitive environment and possible profitability of the project. Given the information, there was little reason to believe that the project would achieve its initial goals. Indeed, participants were given information from multiple stakeholders in the organization that clearly suggested that the finished project will not be profitable. Participants made judgements regarding their perceived responsibility for the predicament. They then had to make a second decision about whether to invest additional capital in the project. Once they had completed the simulation, participants were debriefed and paid.

In terms of the variables manipulated to test our propositions, the experimental design was a $2 \times 2 \times 2$ factorial design, varying regulatory focus (promotion and prevention), sunk-costs (low and high), and project completion (early and late stage).

2.1.2. Independent variables

2.1.2.1. State regulatory focus. Individuals' regulatory focus was manipulated using a strategy commonly used in regulatory focus studies developed by Higgins et al. (2001), who found that a similar manipulation significantly influenced state regulatory orientation. The manipulation asks participants to write down either three things they would potentially gain from taking on the project (a promotion-focused eager strategy) or three things they would potentially lose by not taking on the project (a prevention-focused vigilant strategy). The question was asked after they had read the case and before they made the initial decision to take on the project.

2.1.2.2. Completion proximity. Respondents were informed that the project was either 15% or 85% complete. After the study, a 2-item manipulation check scale ($\alpha = 0.87$) asked how close they were to completing the project on a sliding bar scale from 1 (very far) to 10 (very close), revealing a mean difference between the low ($M = 2.74$) and high ($M = 8.48$) project completion conditions in the proper direction ($F_{(1,119)} = 15.11, p < .01$).

2.1.2.3. Sunk-cost. Consistent with Moon (2001), people in the low (high) sunk-cost condition were told that the money already invested in the venture was \$1.5 (\$8.5) million, that time elapsed on the project was 6 months (1 year), and that they had expended a small (large) amount of funds compared with what is normally invested in this type of project. The post-study 2-item sunk-cost manipulation check, measuring how many resources they had sunk into the project prior to making the decision from 1 (very little) to 10 (very large amount) scale ($\alpha = 0.74$), revealed a difference between the low ($M = 2.96$) and high ($M = 5.85$) sunk-cost conditions in the proper direction ($F_{(1,119)} = 17.41, p < .01$).

¹ This manipulation appeared to have no effect on the decision to invest, with 97% deciding to invest in each condition. The remaining 3% were eliminated from the analysis. No differences were found between the two groups.

Download English Version:

<https://daneshyari.com/en/article/947669>

Download Persian Version:

<https://daneshyari.com/article/947669>

[Daneshyari.com](https://daneshyari.com)