INTERNATIONAL JOURNAL OF MANAGEMENT, BUSINESS, AND ADMINISTRATION
VOLUME 13, NUMBER 1, 2010

Escalation of Commitment: Patterns of Retrospective Rationality

Fred C. Lunenburg
Sam Houston State University

ABSTRACT

Escalation of commitment is the tendency of decision makers to continue to invest time, money, or effort into a bad decision or unproductive course of action. The expression 'throwing good money after bad" because they have "too much invested to quit" captures the essence of this common decision-making error. In this article, I provide several classic examples of escalation from around the world.

Executives working at all levels and in all types of organizations make decisions. They must make good decisions—the right decisions in the right way at the right time (Schermerhorn, Hunt, & Osborn, 2011). Essentially, the decision making process involves making choices from the available information at hand and the alternatives derived from that information (Gilboa, 2011).

Most executives perceive themselves as rational decision makers. This means that they have perfect information, know all alternatives, determine every consequence, and establish a complete preference scale (March, 2010). The reality is that executives are all subject to *bounded rationality* (Colquitt, Lepine, & Wesson, 2011; Nielsen, 2011). Bounded rationality is the notion that decision makers simply do not have the ability or resources to process all available information and alternatives to make optimal decisions (Simon, 1982, 1997, 2009).

Given that decision makers often do not have all the information and alternatives they need to make good decisions and, therefore, are subject to bounded rationality, it is not surprising that sources of error in decision making exist (George & Jones, 2008). One major source of error in decision making is *escalation of commitment*—the human tendency to continue to follow a failing course of action. The expression "throwing good money after bad" captures the essence of this common decision-making error. There is a considerable amount of research that indicates that individuals and groups escalate commitment to a course of action in order to justify their original decision (Bobocel & Meyer, 1994; Bragger, 2003; Brockner, 1992; Conlon & Garland, 1993; Fai, Wong, Yik, & Kwong, 2006; Garland & Newport, 1991; Heath, 1995; Hi & Mittal, 2007; Keil, 1995;

McNamara, Moon, & Bromiley, 2002; Moon, 2001; Mullins, 2007; Ross & Staw, 1993; Schoorman & Holahan, 1996; Sharp & Salter, 1997; Simonson & Staw, 1992; Staw, 1976, 1981, 1997; Staw, Barsade, & Koput, 1997; Staw & Ross, 1978; 1986; 1987; Street & Street, 2006; Tan & Yates, 1995; Whyte, 1986, 1991, 1993; Wong & Kwong, 2007; Zardkoohi, 2004).

There are many classic examples of escalation around the world. The Shoreham Nuclear Power Plant in Long Island, New York is one example. The project was initiated in 1966 at an estimated cost of $75 million with a completion date by 1973. Due to a strong antinuclear movement by Suffolk County residents, the project took 23 years to complete at a cost of more than $5 billion. The plant was never opened (Fagin, 2001; Ross & Staw, 1993). Escalation also occurred when the Metropolitan Transport Bureau of Tokyo proposed to build a 20-mile, high-speed subway system under the city at a tremendous profit. The multibillion-dollar project was well over budget and more than three years overdue. Experts estimate that the massive subway system will not be profitable until 2040 (Fackler, 1999). The savings and loan crisis of the 1980s resulted from decisions made by loan officers to make riskier loans in an escalating effort to recoup losses resulting from earlier poor loan decisions (Staw, Barsade, & Koput, 1997). A similar near crisis occurred in 2009 resulting in near record-breaking home foreclosures.

Other examples of escalation follow. Denver's International Airport set out to add a state-of-the-art automated baggage handling system to its airport construction. The project was never completed, which caused a delay in the opening of the airport by nearly two years and $2 billion over budget (Montealegre & Keil, 2000). Despite many years of investment costing millions of dollars, Henry Ford was never able to produce sufficient quantities of rubber in the Amazon (Staw, 1976). The decision made by the Bureau of Alcohol, Tobacco, and Firearms agents to raid the heavily armed Branch Dividian compound outside Waco, Texas is another example of escalation of commitment (Hi & Mittal, 2007). Escalation also occurred when the British government continued to fund the Concorde supersonic jet long beyond its economic feasibility. After three decades, the Concorde fleet was eventually retired in 2003. Industry experts estimate that it cost British Airways $1,200 in profits per customer who took the Concorde supersonic jet instead of a 747 (Rowell, 2003)

Several theories have been proposed to explain the escalation of commitment phenomenon (Aloysius, 2003; Bragger, 2003; Keil, 1995; Sharpe & Salter, 1997). Self-justification theory has received considerable attention (Whyte, 1993). According to self-justification theory, decision makers will escalate their commitment to a course of action, because they do not want to admit, to themselves or others, that prior resources were not allocated properly. In other words, they are inclined to protect their beliefs about themselves as rational, competent decision makers by convincing themselves and others that they made the right decision in the first place.

Conclusion

Escalation of commitment is the tendency of decision makers to continue to invest time, money, or effort into a bad decision or unproductive course of action. The expression 'throwing good money after bad" because they have "too much invested to quit" captures the essence of this common decision-making error. I have provided many classic examples of escalation from around the world. Escalation of commitment has managerial implications. Many organizations have suffered large losses, because a manager was determined to prove his original decision was correct by continuing to commit resources to a failing course of action. The decision making guru, James G. March, put it this way: "Now that I have made my decision, I need to find good reasons for it."

References

Aloysius, J. A. (2003). Rational escalation of costs by playing a sequence of unfavorable gambles: The martingale. *Journal of Economic Behavior & Organization, 51*, 111-129.

Bobocel, D. R., & Meyer, J. P. (1994). Escalating commitment to a failing course of action: Separating the roles of choice and justification. *Journal of Applied Psychology, 79*, 360-363.

Bragger, J. D. (2003). When success breeds failure: History, hysteresis, and delayed exit decisions. *Journal of Applied Psychology, 88*(1), 6-14.

Brockner, J. (1992). The escalation of commitment to a failing course of action: Toward theoretical progress. *Academy of Management Review, 17*, 39-61.

Colquitt, J. A., Lepine, J. A., & Wesson, M. J. (2011). *Organizational behavior: Improving performance and commitment in the workplace*. New York, NY: McGraw-Hill.

Conlon, D. E., & Garland, H. (1993). The role of project completion information in resource allocation decisions. *Academy of Management Journal, 36*, 402-413.

Fackler, M. (1999, July 20). Tokyo's newest subway line: A saga of hubris, humiliation. *Associated Press Newswires*.

Fagin, D. (2001, November). *Lights out in Shoreham* [Long island history online]. Retrieved from http://www.lhistory.com/9/hs9shore.htm

Fai, K., Wong, E., Yik, M., & Kwong, J. Y. Y. (2006). Understanding the emotional aspects of escalation of commitment: The role of negative affect. *Journal of Applied Psychology, 91*(2), 282-297.

Garland, H., & Newport, S. (1991). Effects of absolute and relative sunk costs on the decision to persist with a course of action. *Organizational Behavior and Human Decision Processes, 48*, 55-69.

George, J. M., & Jones, G. R. (2008). *Understanding and managing organizational behavior*. Upper Saddle River, NJ: Prentice Hall.

Gilboa, I. (2011). *Rational choice*. Cambridge, MA: MIT Press.

Heath, C. (1995). Escalation and de-escalation of commitment in response to sunk costs: The role of budgeting in mental accounting. *Organizational Behavior and Human Processes, 62*, 38-54.

Hi, X., & Mittal, V. (2007). The effect of decision risk and project stage on escalation of commitment. *Organizational Behavior and Human Decision Processes, 103*(2), 225-237.

Keil, M. (1995). Escalation of commitment in information systems development: A comparison of three theories. *Academy of Management Journal*, *38*, 348-355.

March, J. G. (2010). *Primer on decision making: How decisions ha*ppen. New York, NY: Simon & Schuster.

McNamara, G., Moon, H., & Bromiley, P. (2002). Banking on commitment: Intended and unintended consequences of organizations' attempts to attenuate escalation of commitment. *Academy of Management Journal*, *45*, 443-452.

Montealegre, R., & Keil, M. (2000). Deescalating information technology projects: Lessons from the Denver International Airport. *MIS Journal, 24*, 417-447. Retrieved from http://en.wikipedia.org/wiki/Denver_International_Airport

Moon, H. (2001). Looking forward and looking back: Integrating completion and sunk-cost effects within an escalation of commitment progress decision. *Journal of Applied Psychology*, *86*(1), 104-113.

Mullins, J. W. (2007). Good money after bad. *Harvard Business Review*, *85,* 37-48.

Nielsen, H. (2011). *Bounded rationality in decision making*. Dobbs Ferry, NY: Manchester University Press.

Ross, J., & Staw, B. M. (1993). Organizational escalation and exit: Lessons from the Shoreham nuclear power plant. *Academy of Management Journal*, *36*, 701-732.

Rowell, D. M. (2003, April 11). *Concorde: An untimely and unnecessary demise*. Retrieved http://www.thetravelinsider.info/2003/0411.htm

Schermerhorn, J. R., Hunt, J. G., & Osborn, R. N. (2011). *Organizational behavior*. New York, NY: Wiley.

Schoorman, F. D., & Holahan, P. J. (1996). Psychological antecedents of escalation behavior: Effects of choice, responsibility, and decision consequences. *Journal of Applied Psychology, 81*, 786-793.

Sharp, D. J., & Salter, S. B. (1997). Project escalation and sunk costs: A test of the international generalizability of agency and prospect theories. *Journal of International Business Studies*, *28*, 101-121.

Simon, H. A. (1982). *Models of bounded rationality*. Cambridge, MA: MIT Press.

Simon, H. A. (1997). *Models of bounded rationality: Empirically grounded economic reason*. Cambridge, MA: MIT Press.

Simon, H. A. (2009). *Economics, bounded rationality, and the cognitive revolution*. Northampton, MA: Edward Elgar Publishing.

Simonson, I., & Staw, B. M. (1992). Deesclation strategies: A comparison of techniques for reducing commitment to losing courses of action. *Journal of Applied Psychology*, *77*, 411-426.

Staw, B. M. (1976). Knee-deep in the big muddy: A study of escalating commitment to a chosen course of action. *Organizational behavior and human performance, 16,* 27-44.

Staw, B. M. (1981). The escalation of commitment to a course of action. *Academy of Management Review, 6*, 577-587.

Staw, B. M. (1997). The escalation of commitment: An update and appraisal. In Z. Shapira (Ed.), *Organizational decision making* (pp. 156-189). Cambridge, UK: Cambridge University Press.

Staw, B. M., Barsade, S. G., & Koput, K. W. (1997). Escalation at the credit window: A longitudinal study of bank executives' recognition and write-off of problem loans. *Journal of Applied Psychology, 82*, 130-142.

Staw, B. M., & Ross, J. (1978). Commitment to a policy decision: A multi-theoretical perspective. *Administrative Science Quarterly, 23*, 40-64.

Staw, B. M., & Ross, J. (1986). Understanding behavior in escalating situations, *Science, 246*, 216-220.

Staw, B. M., & Ross, J. (1987). Knowing when to pull the plug. *Harvard Business Review, 65*, 68-74.

Street, M., & Street, V. L. (2006). The effects of escalating commitment on ethical decision-making. *Journal of Business Ethics, 64*, 343-356.

Tan, H., & Yates, J. F. (1995). Sunk cost effects: The influence of instruction and future return estimates. *Organizational Behavior and Human Decision Processes, 63*, 311-319.

Whyte, G. (1986). Escalating commitment to a course of action: A reinterpretation. *Academy of Management Review, 11*, 311-321.

Whyte, G. (1991). Diffusion of responsibility: Effects on the escalation tendency. *Journal of Applied Psychology, 76*, 408-415.

Whyte, G. (1993). Escalating commitment in individual and group decision making: A prospect theory approach. *Organizational Behavior and Human Decision Processes, 54*, 430-455.

Wong, K. F. E., & Kwong, J. Y. Y. (2007). The role of anticipated regret in escalation of commitment. *Journal of Applied Psychology, 92*(2), 545-553.

Zardoohi, A. (2004). Do real options lead to escalation of commitment? Comment. *Academy of Management Review*, 29, 111-119.