Escalation of Commitment: Patterns of Retrospective Rationality

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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;...
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


