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applying
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Commitment to Sunk Costs

For most business owners the current economic situation involves an extraordinary amount of uncertainty. Few of us want to rock the boat when the water is rough to begin with. Under the circumstances, we may prefer the devil we know to the one we don't. Humans typically prefer stability, even when change can be key to success. There are many reasons why leaders and managers cling to the status quo. A common reason involves an all-too-human insistence on seeing a strategy through to the end. When determining whether or not to change course (even when faced with disappointing results), people tend to place undue emphasis on prior costs. The greater the prior cost has been, the more likely it is that people will "stay the course." Consider this study by Arkes and Blumer (1985). Subjects were told the following:

"As the president of a company you have invested \$10 million dollars of the company's money into a research project [a plane that cannot be detected by radar]. When the project is 90% completed, another firm begins marketing a competing plane that cannot be detected by radar. Also, it's apparent that their plane is much faster and far more economical than the plane your company is building. The question is: should you invest the last 10% of the research funds to finish your radar-blind plane?"

The authors found that 85% of the subjects in the study recommended finishing the airplane. However, another group, who was not told about the prior investment, overwhelmingly decided not to invest the money. For most people, making a prior investment (even though it was a mistake) becomes a justification for sticking to their guns. As Leahy (2001) succinctly put it, individuals often attempt to redeem themselves from sunk-costs by trying to make the unworkable finally work.

If you're finding it difficult to let go of a long-held yet disappointing strategy, consider bringing others (who aren't as committed to defending a lost cause) into your decision-making process.

-Larry Gard, Ph.D.