For managers, ERG theory explains that different types of needs can occur simultaneously. As such, managers should refrain from directing their attentions to one need set at a time. Managers must also remember that needs are a relative concept; in other words, what fully satisfies the desire of one person with regards to a needs set might not satisfy another person. Also, what motivates individuals and what is most salient and desired by them is likely to change over the course of their lives. For managers, this speaks to the importance of knowing and understanding one's employees. It also illustrates to managers how individualized and varied employee needs can be. This means managers should avoid a one-size-fits-all approach to meeting employee needs and should instead make efforts to customize motivation efforts with their employees' unique desires in mind. Finally, they should make such efforts with the understanding that continued opportunities to satisfy needs will perpetuate desire and result in ongoing efforts by employees for further satisfaction.

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See also Job Characteristics Theory; Needs Hierarchy; Organizationally Based Self-Esteem; Self-Determination Theory

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Escalation of Commitment

When a decision maker discovers that a previously selected course of action is failing, she is faced with a dilemma: Should she pull out her remaining resources and invest in a more promising alternative, or should she stick with her initial decision and hope that persistence will eventually pay off? Management scholars have documented a tendency of decision makers to escalate commitment to previously selected courses of action when objective evidence suggests that staying the course is unwise. In these situations, decision makers often feel they have invested too much to quit and make the errant decision to "stick to their guns." This entry describes the nature of "escalation of commitment," its most likely causes, decision characteristics that exacerbate its severity, how it can be prevented, and why it is important.

Fundamentals

Escalation of commitment is a risk whenever a decision maker (a) commits resources to a course of action (thereby making an "investment") in the hope of achieving a positive outcome and (b) experiences disappointing results. Invested resources may take any form from time, money, and labor to mental and emotional energy. For example, an individual risks escalation of commitment across the following diverse circumstances: when deciding between committing more money to bail out a foundering start-up versus investing elsewhere, when choosing between investing in more job training for an underperforming employee versus firing and replacing her, or when weighing whether to invest in marriage counseling versus seek a divorce.

While there are many situations where the best course of action is to commit further resources to a failing investment, the term *escalation of commitment* describes only those situations where objective evidence indicates that continuing with an investment is unwise, and yet an individual chooses to invest further in spite of this.

Explanations for Escalation of Commitment

Self-justification theory. Self-justification theory provides one explanation for why people escalate commitment to their past investments. Feeling personally responsible for an investment that turns sour intensifies the threat associated with failure and increases a decision maker's motivation to justify the original choice to herself. Negative feedback on a past investment decision calls the validity of the original decision into question and is dissonant with a decision maker's natural desire to see herself as competent. Many decision makers attempt to eliminate this conflict by convincing themselves that their failing ventures will turn around if they simply invest more resources. To do so and succeed would prove that the original choice was valid and eliminate the "cognitive dissonance" created by the initial negative feedback.

Confirmation bias. Biased information processing is one way that decision makers reduce the dissonance that arises when their positive self-perceptions conflict with evidence that past investments are underperforming. After committing to a choice, people are far more likely to notice and overweight evidence that supports their decision and ignore and underweight evidence that does not. Furthermore, decision makers actively seek information that confirms the validity of their decisions. This means that decision makers may actually be less aware of problems with their current investments, or, when they *are* aware of such problems, they may underestimate their severity. "Confirmation bias" can therefore cause decision makers to escalate commitment to bad investments.

Loss aversion. When a decision maker receives feedback that her investment is failing, she is faced with the prospect of losing both the potential rewards the investment originally offered and the resources previously committed to it. Past research on prospect theory has demonstrated that the disutility caused by losses is greater than the utility obtained from equivalent gains. For example, the pain of losing $1,000 is more extreme than the pleasure of gaining $1,000. In addition, people become risk seeking in the domain of losses. Negative feedback on an investment frames the decision about whether to continue with the current course of action as a decision about whether to accept a loss or to take steps to prevent locking it in. This loss framing may lead decision makers to go to great lengths and take unwise risks to avoid losses. Escalation of commitment may therefore occur as a result of loss aversion.

Impression management. Impression management explanations of escalation behavior focus on a decision maker's need to justify her past choices to others. The outcome of an investment is rarely free from external scrutiny, and a decision maker may escalate commitment to her original investment to avoid admitting to others that the venture was a failure or that her decision was flawed. Such admissions might cause others to doubt her competence. Furthermore, people tend to punish decision makers for inconsistency. For example, the term *flip flopper* was effectively used to negatively brand the Democratic candidate John Kerry in the 2004 U.S. presidential election when he updated his views on the second Iraq War. When a decision maker switches from her originally endorsed course of action, observers may take it as a sign of weakness or lack of confidence. Thus, even when a decision maker knows that escalation is not the best option, she may choose to escalate commitment to avoid appearing inconsistent.

Managers should know not only *why* escalation of commitment occurs but also *when* it is most likely to occur and to what degree. Next we discuss factors that influence the likelihood and severity of escalation of commitment.

Factors That Influence the Risk of Escalation of Commitment

Personal responsibility. An individual is more likely to commit additional resources to a bad investment if she was the one who originally endorsed it. In fact, experimental evidence has shown that merely asking people to imagine they were responsible for choosing a failing venture makes them more likely to escalate commitment than asking them to imagine that someone else was responsible for the investment. Furthermore, two of the causes of escalation of commitment that were discussed previously—self-justification and impression management—are driven by feelings of personal responsibility for an investment.

Sunk costs. The more resources that have been spent on an investment, the more likely a decision maker is to escalate commitment. However, because these resources are irrecoverable, it is irrational to factor them into decisions about future outcomes. When considering investment possibilities, a decision maker should ignore these "sunk costs" and choose the alternative that will yield the highest payoffs regardless of the resources that have already been expended. The desire to honor sunk costs is driven by psychological factors including loss aversion (refusing to accept the "loss" of expended resources), self-justification theory (needing to justify past expenditures to oneself) and impression management (wanting to avoid appearing wasteful to others).

Proximity to completion. The closer a project is to completion, the more likely decision makers are to exhibit escalation of commitment. Invested time is one form of sunk cost, so it is more difficult to abandon a project the nearer it comes to completion (i.e., as sunk costs increase). However, there is evidence that proximity to project completion is related to the likelihood of escalation *independent of sunk cost considerations*. Goal substitution theory maintains that, as the end of a project nears, completion-oriented goals begin to supersede the original goals of the project (e.g., profit goals). Because decision makers become caught up in the desire to finish the project, they are more likely to escalate commitment to attain completion goals even when more profitable alternatives are available.

Exogenous explanations for failure. Escalation of commitment is also more pronounced when past investment failures can be blamed on unforeseeable, exogenous events. For example, a business start-up's lack of profits could be blamed on an unexpected economic downturn. Any opportunity to blame a setback on an exogenous source helps a decision maker maintain his positive self-concept and the belief that his original decision was valid, increasing the risk of escalation of commitment. Motivated biased information processing can also lead decision makers to assign excessive blame to exogenous impediments while underweighting flaws intrinsic to an investment, further exacerbating escalation of commitment.

Group decision making. Past research on escalation behavior in groups has highlighted two countervailing forces that affect the risk of escalation. On the one hand, having multiple decision makers increases the likelihood that someone will recognize the irrationality of investing further resources in a poor venture. On the other hand, adverse group dynamics, such as groupthink (a phenomenon where the desire to avoid intragroup conflict makes group members overly compliant), can artificially reinforce the original decision and override considerations of alternatives. Past research integrating these perspectives suggests that group decision making decreases the likelihood of escalation of commitment; however, when escalation *does* occur in groups, it is more extreme.

Importance

Escalation of commitment has been studied across a diverse set of important business settings. For example, past research on the banking industry demonstrated that senior bank managers escalate commitment to the loans they select by retaining them even after they prove to be problematic. Specifically, executive turnover significantly predicts de-escalation to these problematic loans. Researchers have also shown that radical Wall Street stock analysts become even more extreme in their forecasts about a company's yearly earnings when new announcements reveal the analysts' quarterly forecasts were errant. This pattern of escalation harms analysts' forecasting accuracy and reduces their likelihood of winning prestigious awards linked to increased compensation. Researchers have also documented escalation behavior in managers' personnel decisions. Supervisors of clerical workers in a large public sector organization who originally supported hiring or promoting an employee subsequently provide positively biased evaluations of that employee. Finally, escalation behavior has even been found among professional sports managers: Teams in the National Basketball Association (NBA) escalate commitment to their top draft picks by fielding and retaining these players longer than would be wise based on their performance alone.

Knowing why and when escalation occurs can help managers avoid this common decision bias. The research discussed above suggests several prescriptions for avoiding escalation of commitment, which are listed below (with the source or aggravator in parentheses):

- Actively seek disconfirming information about a chosen alternative (confirmation bias).
- Reframe losses as gains to prevent risk-seeking behavior (loss aversion).
- Structure incentives so that decision makers are not punished for inconsistency (impression management).
- Hand off decisions about whether to commit more resources to an investment to new decision makers (personal responsibility).
- Be careful not to consider expended resources when making decisions (sunk costs).
- Make sure decision makers are frequently reminded of the goals of the investment (proximity to completion).

The field research summarized above highlights that escalation of commitment occurs in diverse management settings and can lead to serious negative consequences for decision makers. For example, it can lead bank executives to retain bad loans, stock analysts to make inaccurate forecasts, managers to retain and promote low-quality employees, and NBA teams to rely excessively on weak players. Accordingly, escalation of commitment is an important bias for managers to be aware of and aim to avoid.

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See also Cognitive Dissonance Theory; Decision-Making Styles; Groupthink; Managerial Decision Biases; Prospect Theory

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Ethical Decision Making, Interactionist Model of

In the 1980s, a number of ethics-related scandals in business and other organizations were garnering media attention, suggesting that management theorists might wish to attend to the arena of ethical decision-making behavior in a way that they had not previously done. Organizational behavior researchers, borrowing from work by psychologists, were moving beyond debates about person *or* situation effects toward recognizing the importance of *both* individual and situational influences and their interactions on behavior. But there were no explicit models guiding research on ethical decision making and behavior. In 1986, Linda Treviño adopted an interactionist view on ethical decision making in organizations which posited that ethical decision making in organizations results largely not only from the individual's cognitive moral development but also from the interaction of cognitive moral development with other individual differences and contextual features. She offered the model in an attempt to move