

# M2L18. Escalation Of Commitment

## Slide #1



The slide cover is divided into two main sections. The left section is a dark grey rectangle containing the Texas A&M University Engineering logo at the top, followed by the title 'Escalation of Commitment' in white. Below the title is the name 'Dr. Xiaomin Yang'. At the bottom of this section, the course code 'TCMT 612' is displayed in yellow, followed by 'Technical Management Decision Making' in white. A red banner at the very bottom of the slide contains the text 'MASTERS OF ENGINEERING TECHNICAL MANAGEMENT' in white. The right section of the slide is a light grey image showing a person from behind, standing with hands on hips and looking at a large, curved digital display. The display shows a complex network of nodes and lines, along with several hexagonal icons containing bar charts, line graphs, and network diagrams.

ATM  
TEXAS A&M UNIVERSITY  
Engineering

Escalation of Commitment

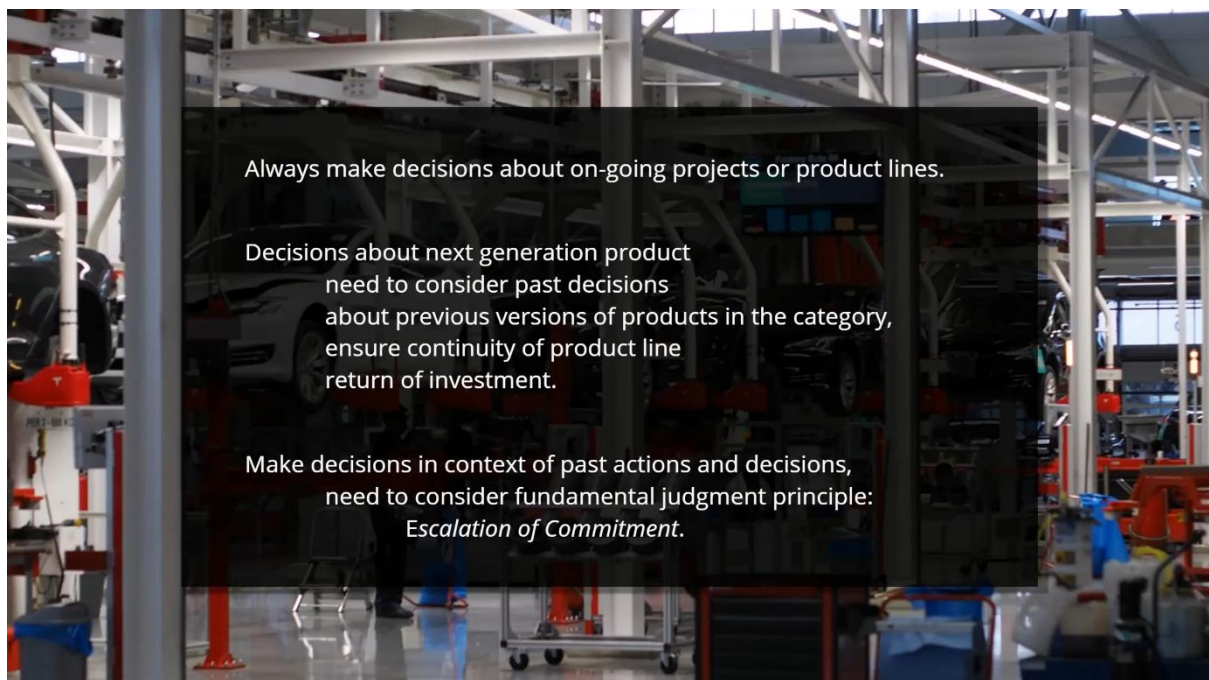
Dr. Xiaomin Yang

TCMT 612 | Technical Management  
Decision Making

MASTERS OF ENGINEERING TECHNICAL MANAGEMENT

In this topic, we will discuss the concept of escalation of commitment.

## Slide #2



Always make decisions about on-going projects or product lines.

Decisions about next generation product  
need to consider past decisions  
about previous versions of products in the category,  
ensure continuity of product line  
return of investment.

Make decisions in context of past actions and decisions,  
need to consider fundamental judgment principle:  
*Escalation of Commitment.*

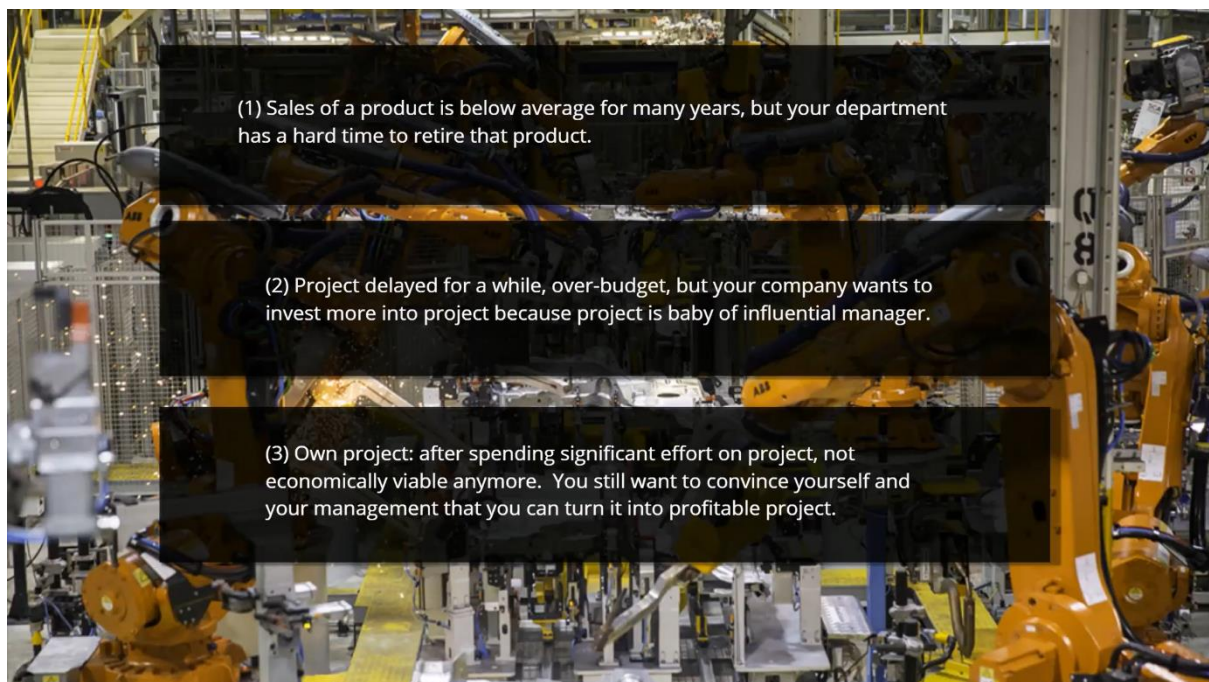
In the business world, we always make decisions about ongoing projects or product lines.

When we make decisions about the next generation product that belongs to a product line, we need to consider our past decisions about the previous versions of the products in the category to ensure the continuity of the product line and the return of our investment in the past.

When we make decisions in the context of past actions and decisions, we need to consider a fundamental judgment principle, escalation of commitment.

Do any of you have the following experience in your company?

### Slide #3



The sales of a product are below the average for many years, but your department has a hard time retiring that product.

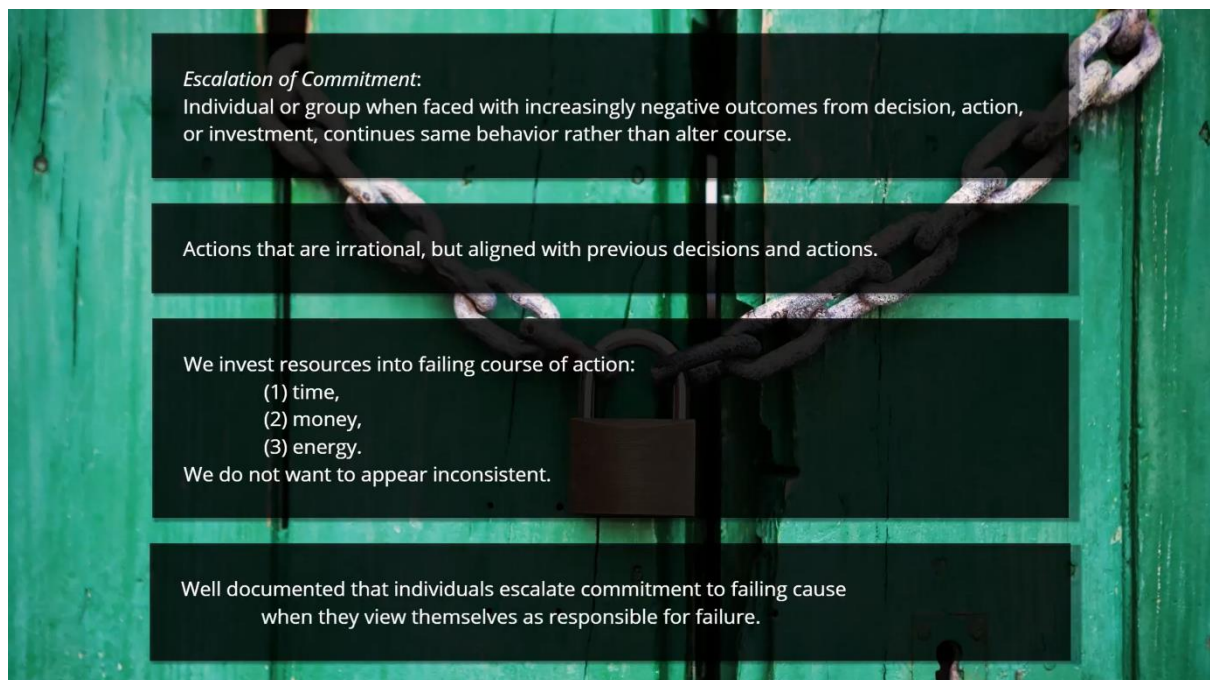
Or in another situation, a project has been delayed for a while and the cost is way over the budget, but your company still wants to invest more into that project because it is the baby of an influential manager.

Or, you are doing your own project. After spending a year of significant effort on this project, you realize that the project is not economically viable anymore.

But you still want to convince yourself and your management that with a little bit more time, resources, and luck, you can turn this project into a profitable one.

If you have experienced any of the above situations, you fall into one of the typical judgmental biases called escalation of commitment.

#### Slide #4



*Escalation of Commitment:*

Individual or group when faced with increasingly negative outcomes from decision, action, or investment, continues same behavior rather than alter course.

Actions that are irrational, but aligned with previous decisions and actions.

We invest resources into failing course of action:

- (1) time,
- (2) money,
- (3) energy.

We do not want to appear inconsistent.

Well documented that individuals escalate commitment to failing cause when they view themselves as responsible for failure.

Escalation of commitment refers to a human behavior pattern in which an individual or group, when faced with increasingly negative outcomes from some decision, action, or investment, continues the same behavior rather than altering the course.

They maintain actions that are irrational but aligned with previous decisions and actions.

Escalation of commitment occurs when we invest resources into a course of action that is failing.

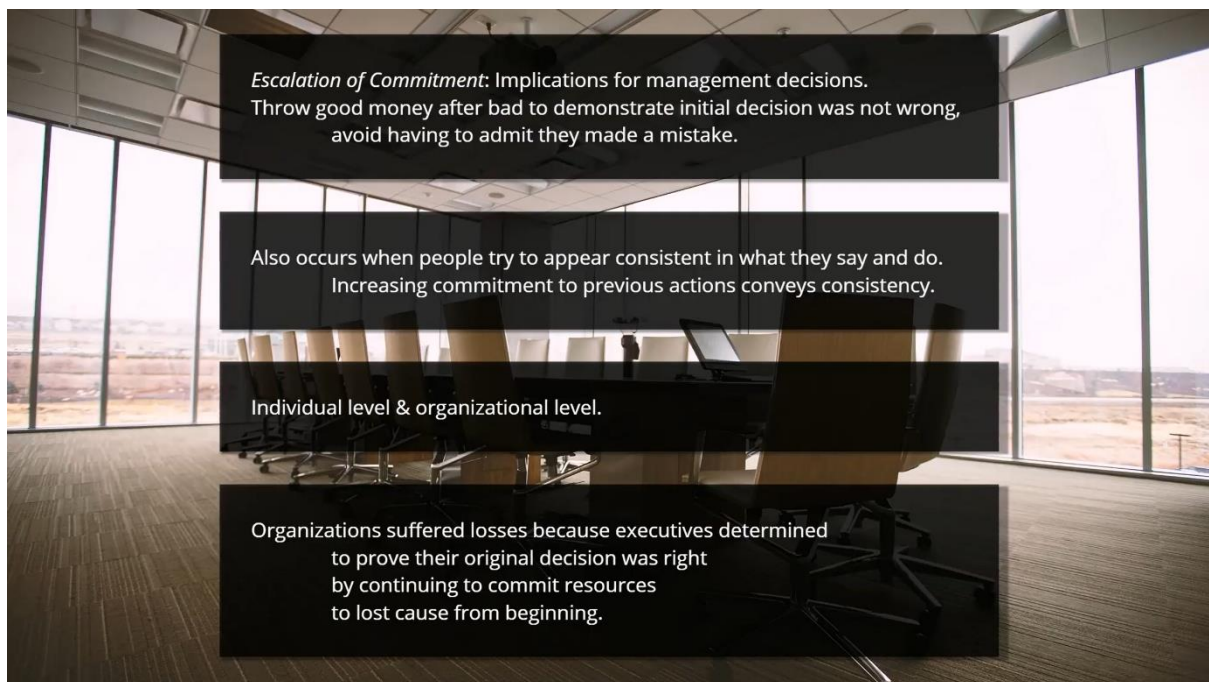
The resources can be time, money, or energy.

We continue to put into an investment because we do not want to appear to be inconsistent.

It has been well documented that individuals escalate commitment to a failing cause of action when they view themselves as responsible for failure.



## Slide #5



Escalation of commitment has obvious implications for management decisions.

They throw good money after bad to demonstrate that their initial decision was not wrong and to avoid having to admit they made a mistake.

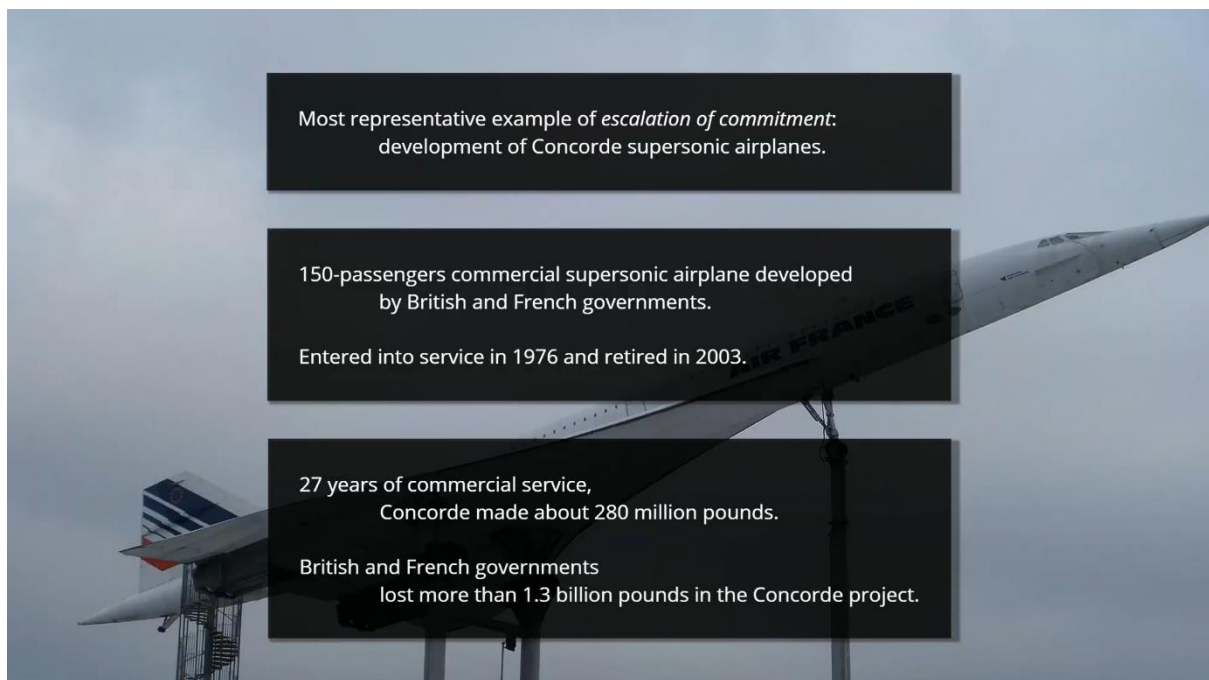
Escalation of commitment also occurs when people try to appear consistent in what they say and do.

The increasing commitment to previous actions conveys consistency.

Escalation of commitment occurs not only at an individual level but also at an organizational level.

Many organizations have suffered losses because their executives were collectively determined to prove their original decision was right and continuing to commit resources to what was a lost cause from the beginning.

## Slide #6



The most representative example of escalation of commitment might be the development of Concorde supersonic airplanes.

The 150-passenger commercial supersonic airplane was developed by the British and French governments.

The airplanes entered into service in 1976 and retired in 2003.

Through the 27 years of commercial service, Concord made about 280 million pounds for British and French Airlines.

The Concord Supersonic commercial jet developers, British and French governments, lost more than 1.3 billion pounds in the Concord Project.

## Slide #7

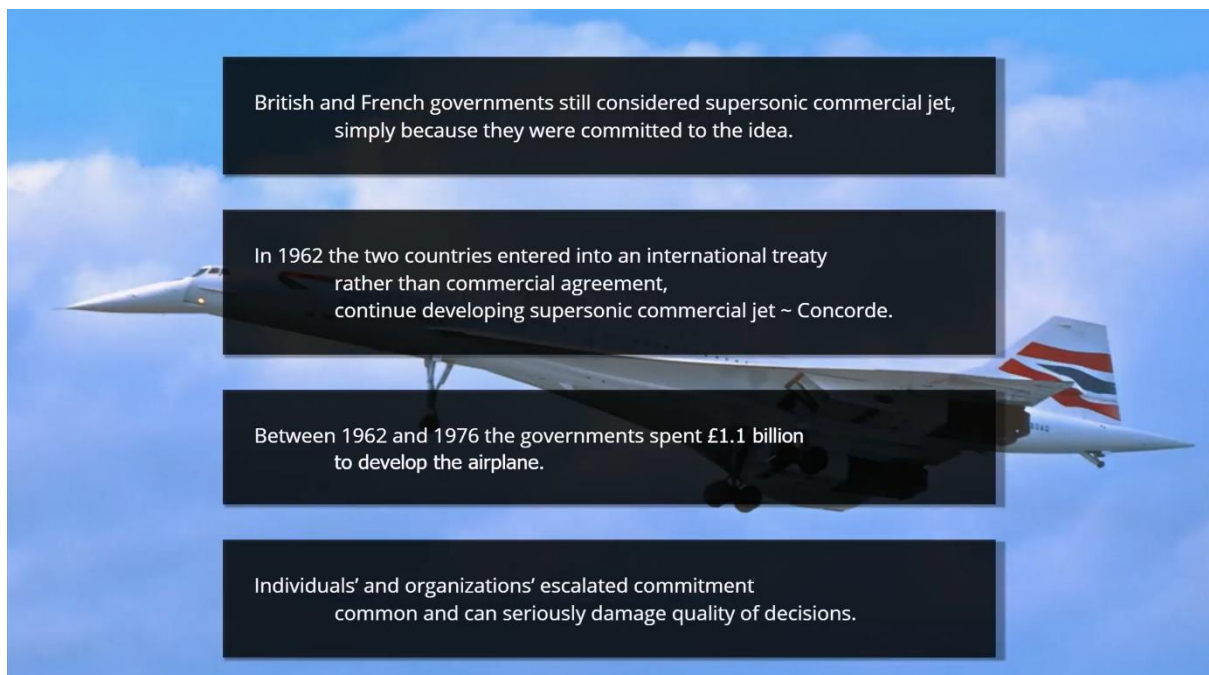


The Concorde idea started in the 1950s and the original cost estimation was 70 million British pounds to develop and build supersonic commercial airplanes.

After 10 years of preliminary study and economic evaluation, all the private companies lost interest in the supersonic commercial jet idea because they did not believe it was economically suitable to run supersonic commercial jet services.

In 1962, the British Committee on Civil Scientific Research and Development issued a report and stated that it was unlikely there would be any direct possible economic outcome out of the supersonic commercial jet.

## Slide #8



But the British and French governments still considered supersonic commercial jet, simply because they were committed to the supersonic commercial jet idea.

In 1962, the two countries entered into an international treaty rather than a commercial agreement to continue developing a supersonic commercial jet and named it Concorde.

Between 1962 and 1976, the British and the French governments spent 1.1 billion British pounds to develop the airplane.

From this example, we can tell individuals and organizations escalated commitment to failing projects is common and can seriously damage the quality of their decisions.