

Journal of Business & Leadership: Research, Practice, and Teaching (2005-2012)

Volume 4
Number 1 *Journal of Business & Leadership*

Article 8

1-1-2008

Escalation of Commitment: An Integrative Model of Individual, Organizational, and Contextual PR Editors

William J. Donohar
Missouri State University

Follow this and additional works at: <https://scholars.fhsu.edu/jbl>



Part of the [Business Commons](#), and the [Education Commons](#)

Recommended Citation

Donohar, William J. (2008) "Escalation of Commitment: An Integrative Model of Individual, Organizational, and Contextual PR Editors," *Journal of Business & Leadership: Research, Practice, and Teaching (2005-2012)*: Vol. 4: No. 1, Article 8.

DOI: 10.58809/NITF6064

Available at: <https://scholars.fhsu.edu/jbl/vol4/iss1/8>

This Article is brought to you for free and open access by the Peer-Reviewed Journals at FHSU Scholars Repository. It has been accepted for inclusion in *Journal of Business & Leadership: Research, Practice, and Teaching (2005-2012)* by an authorized editor of FHSU Scholars Repository. For more information, please contact ScholarsRepository@fhsu.edu.

ESCALATION OF COMMITMENT: AN INTEGRATIVE MODEL OF INDIVIDUAL, ORGANIZATIONAL, AND CONTEXTUAL PREDICTORS

William J. Donoher, Missouri State University

This article seeks to extend the existing literature on escalation of commitment by presenting an integrative model of the escalation process. Individual, organizational, and contextual predictors jointly influence the decision to commit additional resources to an existing course of action or to withdraw and pursue alternative opportunities. Specifically, realization of past losses and the extent to which the individual is identified with the original decision moderate the relationship between the individual's risk preferences and risk propensity. In turn, the escalation decision follows from risk propensity, but various organizational and contextual predictors either increase or decrease the strength of the relationship. The model's implications for theory and practice are discussed.

From Main Street to Wall Street, and from living rooms to board rooms, the question of whether to disengage from, or commit additional money, time, energy or other resources to, a previous course of action is pervasive. Regardless of the context in which the issue arises, however, answering the disengagement question requires the decision maker to engage in a subjective, probability-based evaluation of the future prospects of various alternatives, including continuation of the existing commitment. The dilemma is obvious: although many such decisions ultimately are successful, many others simply result in magnification of the losses already sustained. From a decision-making perspective, the question is how to avoid the latter in circumstances in which decision makers are predisposed to that option.

The purpose of this article is to consider the occurrence of escalation in an organizational context, in which a variety of factors at the individual, organizational, and contextual levels are operative and may jointly influence the final decision. A substantial body of previous research has documented the influence of individual characteristics and cognitive processes that affect decision making in escalation settings (e.g., Staw, 1976). Researchers also have examined organizational, as distinct from individual, escalation (Ross & Staw, 1993) and the contextual and organizational antecedents of decision-making under risk (e.g., Sitkin & Pablo, 1992; Sitkin & Weingart, 1995). The interaction of organizational-level influences with personal characteristics has received less attention (Johns, 2006), but its occurrence has been documented (Shimizu, 2007). This article thus attempts to unite these disparate approaches in an integrative model that focuses upon the specific circumstances attending the escalation process.

The framework presented in this article is centered on the notion that individuals bring to the decision-making task certain idiosyncratic approaches to risk and decision making that may be more or less sensitive to organizational pressures and elements of the decision context (Sitkin & Pablo, 1992). As used in this article, the phrase "organizational pressures" refers to the organization's risk preferences and the strength of its cultural reflection of that

preference. "Decision context" refers to the historical basis of the decision and the individual's involvement in and responsibility for that decision. The argument advanced here is that consideration and integration of these factors is critical to understanding the escalation phenomenon and its likelihood, because more than an individual's attitudes and preferences are incorporated in any decision; organizations, notably one such as Enron with its famously risk-seeking culture (Byrne, 2002), have predispositions and exert stronger or weaker pressures on individual decision makers, which will result in different outcomes in different decision contexts. Depending upon the precise interaction of these various factors, then, escalation may be more or less likely to occur.

The article is presented in four sections. The first begins with a definitional overview of key terminology and constructs utilized in the article, as well as the boundary conditions and assumptions underlying the model. The second section presents the theoretical foundation of escalation and decision making under risk, and is followed in the third section by the elaboration of the proposed model. The article concludes with a discussion of the model's implications for both theory and practice.

TERMINOLOGY, ASSUMPTIONS, AND CONDITIONS

The model elaborated herein relies upon a distinction between risk preference and risk propensity, and therefore follows the convention of Sitkin and Pablo (1992). As used in this article, "risk preference" refers to the individual's cognitive orientation toward risk (Brockhaus, 1980). "Risk propensity", on the other hand, refers to the individual's "current tendency to take or avoid risks" (Sitkin & Weingart, 1995: 1575; emphasis added). In their insightful article, Sitkin and Pablo (1992) describe some of the potential antecedents of risk propensity, of which risk preference is but one. The clear implication of their work is that risk propensity and risk preference are not necessarily coextensive, but rather may be quite different depending upon the nature of other influences operative in a particular decision context.

Another implication of this distinction between the two constructs lies in the degree to which risk preference and risk propensity are seen as stable traits or situational characteristics of the decision maker. Many researchers have viewed risk propensity as a stable dispositional attribute (Fischhoff et al., 1981; Wolman, 1989). Other research, however, appears to indicate that risk propensity may vary over time (March & Shapira, 1987; Osborn & Jackson, 1988; Sitkin & Weingart, 1995). Resolution of the debate may be found in the risk preference-risk propensity dichotomy, in which the former is seen as more stable, and therefore dispositional, than the latter principally because risk propensity is a current tendency (Sitkin & Weingart, 1995) that may be influenced by a variety of situational factors (Sitkin & Pablo, 1992) other than risk preference. Thus, the decision maker's risk preference, a stable characteristic, will affect the decision to escalate commitment, but will do so only indirectly through the moderating effects of risk propensity, itself dependent upon the nature and interaction of various factors exogenous to the individual.

Among these exogenous factors are the various cognitive processes identified in the escalation literature, and discussed in more detail below, that bias decision making in favor of escalation. Although labeled differently depending upon the source of the bias, these influences tend to result in some identification of the individual with the original decision, either because others recognize the decision maker's responsibility for the decision (e.g., Staw, 1976) or because the decision maker self-identifies with the course of action or feels compelled to continue due to various historical or contextual influences (e.g., Brockner & Rubin, 1985). The process by which the individual identifies with, or becomes identified with, the original course of action is referred to in this article as "individuation." The term is used to apply to the presence or absence of any or all of the elements previously identified in the literature as antecedents of the escalation decision.

Two key assumptions and boundary conditions of the proposed model also should be noted at this juncture. First, the model assumes that choice, however circumscribed, exists. In other words, the individual decision maker must be able to choose to withdraw from or to commit additional resources to the original course of action. Similarly, the model is not applicable to conditions in which regulatory or contractual obligations compel a given course of action, or where organizational commitments have become so large that dissolution is threatened by withdrawal (Ross & Staw, 1993).

Second, this article assumes that risk seeking is more likely than risk aversion to lead to escalation (Whyte, 1986). This observation invites discussion of the nature of risk and uncertainty. The concept of risk has been defined in various terms, ranging from a possibility of loss (Yates & Stone, 1992) to a venturing into the unknown or the commitment of a relatively large proportion of existing assets (Baird &

Thomas, 1985). Implicit in these definitions is the notion of a degree of uncertainty, particularly that associated with a probabilistic evaluation of future alternative outcomes.

Given uncertainty, and the attendant possibility of loss, different individuals (and organizations) may react differently to the same situation. Generally speaking, enacted behavior under such circumstances may vary from risk aversion to risk seeking (Chiles & McMackin, 1996). Where an individual (or organization) falls on this continuum may be a function of framing effects, as predicted by prospect theory (Kahneman & Tversky, 1979; Whyte, 1986, 1989), or organizational culture (Chiles & McMackin, 1996; Morgan, 1986), which helps define the general organizational risk profile.

With these definitional clarifications and boundary conditions in mind, the next two sections of the articles are devoted to the development of the escalation process model. First, the theoretical bases of escalation are sketched, followed thereafter by the formal presentation of the model.

THEORETICAL BACKGROUND

The foundations of the escalation literature can be traced to the work of Becker (1960). In developing a general conceptualization of commitment, Becker argued that commitment is dependent upon a linkage of the decision maker's interests to a line of activity by means of a side bet, which he characterized as of some identifiable asset or salient reward obtainable only through consistent behavior or decisions. Depending upon the relative importance or value of the side bet to the decision maker, the cost of inconsistency and the potential loss of the side bet may be so great that any choice other than consistency becomes infeasible. Therefore, Becker suggested, consistency is more likely to arise in connection with activities or decisions bolstered by significant side bets.

Implicitly utilizing Becker's notion of commitment by means of individual identification, subsequent researchers and theorists have developed a broader explanation of the escalation phenomenon through the development of two different, although conceptually related and interconnected, perspectives. One approach, relying heavily upon constructs derived from cognitive dissonance theory (Festinger, 1957), focuses primarily on the extent to which the decision maker's need for self-justification relates to escalation, while the second stream, dealing with entrapment and sunk cost effects, examines the influence of the historical context on present decision making, apart from the normative or evaluative processes implicit in the justification research.

In the seminal empirical work in the justification stream, Staw (1976) investigated the relationship between individual responsibility for a previous course of action and the decision to increase the level of commitment to that course of action. Treating project success or failure and level of responsibility as independent variables, Staw determined that those who were highly responsible for the initial allocation decision were more likely to increase

funding than those who merely assumed responsibility from a preceding decision maker. These decision makers' needs for self-justification under such circumstances thus predicted escalation. Other researchers have reached similar conclusions in studies considering variations of Staw's framework (Brockner, et al., 1986; Leatherwood & Conlon, 1987; Lydon & Zanna, 1990; Simonson & Staw, 1992). More recently, Hayward and Shimizu (2006) demonstrated that de-commitment was more likely to occur when the decision maker could attribute the cause of under-performance to factors other than his or her individual involvement.

By contrast, the entrapment literature adopts the assumption that the historical context of the decision may influence present decision making and behavior, but that the process does not necessarily entail normative considerations and the decision maker's need or desire to justify the decision (Brockner & Rubin, 1985, pp. 6-7). Research in this area thus has investigated the timing of events or expected outcomes and the salience of such events or outcomes to the individual decision maker (Brockner, et al., 1982; Brockner, Rubin, & Lang, 1981; Fox & Staw, 1979; Rubin & Brockner, 1975), exogenous influences such as role models (Brockner, et al., 1984), and sunk cost effects, which incorporates a more explicitly economic context (Garland, 1990). The key finding of this body of work is the generally positive relationship between some investment of the decision maker, e.g. of time or resources, and the tendency to maintain or increase commitment.

In general, the foregoing studies, whether employing the perspective of justification or entrapment, are notable for the consistency with which they document the relationship between psychological processes, derived from some attachment or investment, and the propensity to maintain or escalate commitment. As indicated above, this article treats the process of attachment or identification as a unitary construct referred to as "individuation." The presence or absence of any of these various influences, whether derived from justification or entrapment, is thus seen as one potential predictor of escalation.

Despite strong evidence of the main effects of individuation (Brockner, 1992), research in this area is not without its critics, some of whom argue that the literature misconstrues decision complexity as decision error (Bowen, 1987; Northcraft & Wolf, 1984). Indeed, at least one study employing a multitheoretical analysis disclosed evidence contradicting the justification stream (Staw & Ross, 1978). The implication of these findings is that something other than individuation may account for or influence the escalation phenomenon.

An alternative theoretical lens for the escalation phenomenon suggested by some of these critics (e.g., Whyte, 1986) is prospect theory (Kahneman & Tversky, 1979), which explicitly considers decision frame and risk orientation in predicting subsequent behavior. According to the theory, realization of either losses or gains from past

decisions results in biased evaluation of risk and probable outcomes. In particular, experienced losses present the decision maker with a choice between a certain outcome (the experienced loss) and an uncertain outcome (additional investment) that may result in a larger loss or some positive, or less negative, end result. In such circumstances, prospect theory predicts the latter course of action will be selected, even when the expected value is less than that of the certain outcome, as is typically the case. Thus, risk-seeking behavior is expected in the domain of losses, whereas exactly the opposite result (risk averse behavior) is expected in the domain of gains. On an organizational level, this effect was demonstrated by Miller and Chen (2004), who showed that organizational risk increased as proximity to bankruptcy increased. Although not without its own critics (e.g., Brockner, 1992; Sitkin & Pablo, 1992; Sitkin & Weingart, 1995), prospect theory nevertheless offers an additional perspective on escalation, and thus must be considered as an additional potential predictor of such behavior.

All of the foregoing work adopted the individual as the focal unit of analysis. Thereafter, researchers began considering higher level influences on decision processes generally, and escalation in particular. Two studies focusing on organizational escalation are those by Ross and Staw (1986, 1993), which examine the British Columbia world's fair and the development of the Shoreham nuclear power facility, respectively. Implicitly relying upon the earlier work of Staw (1981) and Staw and Ross (1988), Ross and Staw's (1993) analysis of the circumstances surrounding the Shoreham plant revealed a four stage temporal model of commitment that embellished their initial escalation prototype (1986: 293-295). The Shoreham study suggested that, within each stage, combinations of five determinants (project, psychological, social, organizational and contextual) are operative, the influence of each of which varies with the stage in question. Importantly, the earlier organizational pressures build in the escalation process, the more likely escalation becomes.

The importance of this model, with its explicit recognition of factors other than purely cognitive or psychological processes, cannot be understated. Unlike the research conducted previously in the area of escalation, with its emphasis on individual reactions and evaluative processes, the Shoreham work and its predecessor explain organizational commitment as a social phenomenon. The temporal model thus provides a richer, more complete picture of the decision process within an organizational context. However, the model does not explicitly address the influence of organizational factors on individual decision process; rather, escalation is seen as an organizational response to a variety of influences, one of which is individual cognition.

In an insightful work that addresses the question of external influences on individual behavior, Sitkin and Pablo (1992) presented a general decision process model that

attempts to link individual cognitive processes with organizational and contextual factors. Key to their model are the mediating roles of risk propensity and risk perception in determining individual risk behavior. Various antecedents occurring at different levels of analysis are proposed to affect behavior only through the intervening influence of risk propensity and risk perception. Although the mediating role of risk perception has not been unequivocally supported in subsequent research (Sitkin & Weingart, 1995), the model is promising for its multilevel approach to decision making, especially the notion that risk propensity is not solely dependent upon individual risk preference.

These rather disparate research streams present an opportunity to reconceptualize the escalation process by integrating their findings and predictions in a multilevel model. The ultimate goal of such a model is to provide richer detail and insight into escalation and, accordingly, to address gaps in existing theory that critics of each perspective have identified (Bowen, 1987; Brockner, 1992; Sitkin & Weingart, 1995; Whyte, 1986) in order to improve our understanding of this important phenomenon. The following section presents the escalation process model in an effort to begin this task.

THE ESCALATION PROCESS MODEL

Risk Preferences and Risk Propensity

Consideration of the escalation process model begins with the observation that individuals do not come to the escalation context as blank slates, but rather exhibit certain preferences with respect to risk and uncertainty. In general terms, these preferences are characterized as risk seeking or risk aversion (Chiles & McMackin, 1996). As discussed in the opening section, risk preferences are assumed to be relatively stable dispositional characteristics of the individual, and thus guide that individual's subsequent behavioral choices. Despite relatively stable underlying risk preference, individuals do not always act in a uniformly risk averse or risk seeking manner, but rather may exhibit either tendency depending upon the exigencies of the situation (Fiegenbaum & Thomas, 1986). This observation follows from the posited distinction between risk preferences and risk propensity (Sitkin & Pablo, 1992), pursuant to which risk preferences are but one influence on risk propensity, which in turn is a predictor of behavior.

When considering the typical escalation scenario, the contextual variables with which we are concerned are the extent of individuation present and the realization of losses associated with the previous decision. Past escalation research (e.g., Brockner, 1992; Staw, 1976) and prospect theory (e.g., Kahneman & Tversky, 1979), respectively, predict positive main effects for these variables on the decision to escalate. That is, if individuation is present, escalation is more likely, as is true when losses on an existing project have been realized. But it is also possible

that both aspects of the context may be present and should be considered jointly rather than in isolation. Moreover, the joint occurrence of individuation and loss realization defines the decision context within which the individual decision maker, who possesses established risk preferences, operates. The cumulative effect of all of these influences may be quite different than the main effects predicted for individuation and loss realization when treated separately.

In this model, the joint occurrence of individuation and loss realization is expected to moderate the relationship between risk preferences and risk propensity. Prospect theory predicts that the effect of loss realization is an increase in risk seeking behavior (Kahneman & Tversky, 1979), but this outcome should be greater in the presence of individuation than in its absence, given the tendency of individuation to lead to escalation (e.g., Staw, 1976). Individuation thus moderates the effect of loss realization on the relationship between risk preferences and risk propensity.

The cumulative effect of these relationships is that risk preferences, absent other factors, influence risk propensity in the direction of the individual's underlying risk preferences (Sitkin & Pablo, 1992). Thus, preferences for risk aversion (or seeking) lead to a propensity to avoid (or seek) risk. However, both individuation and loss realization lead to escalation, which suggests that the individual's risk propensity is biased toward risk seeking, even if that individual's risk preference is other than risk seeking. Because risk preferences are seen as relatively stable dispositional characteristics (e.g., Fischhoff et al., 1981; Wolman, 1989), individuation and loss realization must moderate the relationship between risk preferences and risk propensity for a risk averse individual to undertake risk seeking behavior. The cumulative effect of individuation and loss realization on risk propensity varies depending upon the underlying risk preferences of the individual decision maker. Risk seekers are likely to exhibit risk seeking propensities as long as either individuation or loss realization are present, but risk averse decision makers will exhibit higher risk propensities when both factors are present than when only loss realization is present.

Proposition 1a: For a risk seeking individual, either individuation or loss realization will increase risk propensity and induce escalation.

Proposition 1b: For a risk averse individual, both individuation and loss realization will be required to increase risk propensity and induce escalation.

Organizational Culture

A number of different approaches to the study of organizational culture appear in the literature, but despite divergent formulations of the specific forms and characteristics of the construct, culture is recognized as an inherent aspect of group or organizational existence (Schein,

1992). Research presuming the existence of an identifiable, if not definable, culture has examined person-organization fit (Chatman, 1989; Schneider, 1987), cooperation in the context of collectivistic or individualistic cultures (Chatman & Barsade, 1995), and other phenomena. And organizations appear to project either risk averse or risk seeking characteristics (Miller & Chen, 2004). The question this section addresses is the extent to which an organizational-level factor such as culture interacts with and influences individual behavior (Shimizu, 2007).

In his summary of research in the area, Schein (1992, pp. 8-10) partitions findings into several major categories of cultural phenomena, among which are observed behavioral regularities, group norms, espoused values, formal philosophy, rules of the game, and climate. All of these factors point to a certain element of uniformity or pervasiveness, necessarily implicating the notion of organizational patterns that effectively operate to constrain or alter individual behavior. Thus, patterns of behavior exhibited by the dominant culture, whether occurring as a function of informal organizational structures or formally through the implementation of rules and procedures, ultimately may be adopted by newer members of the company or group through, for example, social information processing (Salancik & Pfeffer, 1978), sheer conformity to the situational characteristics then existing (Davis-Blake & Pfeffer, 1989), or adherence to legitimate authority (Weber, 1978). Culture thus provides a source of cues supporting an individual's sensemaking of organizational behavior (Ravasi, 2006). Decision-making is but one task-related aspect of organizational life that is subject to the forces of culture (Bowen, 1987).

Of course, whether a particular individual perceives or conforms to the dominant cultural mode depends on more than the mere existence of a cultural attribute. Strength of culture is a key consideration (Davis-Blake & Pfeffer, 1978). Generally speaking, the strength of the culture, that is, the extent to which such values are widely shared throughout the enterprise and strongly held by the members, will determine the match between culture and behavior (Chatman & Jehn, 1994; O'Reilly, 1989), precisely because strong cultures are expected to lead to a condition of behavioral consistency (Sorensen, 2002). Therefore, individual decision-making in an organization marked by a strong culture likely will more closely conform to the wishes of the organization with respect to the issue at hand than will decision-making in a weak culture, other things equal.

Interesting questions arise when considering the degree of convergence or divergence between individual and organizational risk preferences. For instance, "a risk-averse individual... may not advocate risk avoidance by the whole firm. That is, an individual aversion to a specific new-venture opportunity may be overcome by either careful study and investigation or confidence in a good idea. The result may be that, at the level of the firm, risks are taken

that would not be taken by a firm member" (Lumpkin & Dess, 1996, p. 145).

Of course, individual preferences, given the discussion of culture above, may be overcome by other than good ideas, study, and investigation; a good example of this is the groupthink phenomenon (Janis, 1971). Similarly, depending upon the strength of culture, the converse to the cited passage may also be observed, that is, the individual may take risks that would not be taken at the level of the firm in the presence of a strong culture.

What constitutes a strong culture for risk? Following Schein's (1992) taxonomy and the general observations related above, we can conclude that with respect to risky decision making, a strong culture would be typified by widely accepted and adhered to rules and procedures. Incentives or other mechanisms may be invoked to encapsulate overall organizational goals and risk preferences. Generally, then, we can assume that a strong cultural orientation with respect to risk likely will be marked by some proactive stance on the part of the firm, supported by widely shared beliefs about appropriate levels of risk.

With this generalized background as a guide, it makes sense to consider the possible combinations of individual and organizational orientations, in the latter case determined at least in part by cultural strength. The individual's risk propensity will, as outlined in the previous section, be determined by the extent of individuation and loss realization in combination with individual risk preference. Thus, four possible combinations of individual and organizational risk profiles emerge: 1) individual and organizational risk seeking; 2) individual risk aversion and organizational risk seeking; 3) individual risk seeking and organizational risk aversion; and 4) individual and organizational risk aversion.

Given the foregoing, the ultimate decision in a particular situation will be a function of the degree of correspondence or conflict between individual and organizational risk propensity. In the simplest case, where both individual and organizational risk profiles are identical, maintenance or escalation of commitment to a previous course of action would be more likely to occur when both the organization and the individual decision maker are risk seekers than when both the organization and the individual are risk averse. Here, there are no real impediments to risky behavior; certainly in the case of a strong culture, one would expect convergence between individual behavior and cultural mores, as set forth above (Schein, 1992). Coupled with natural propensities to seek risk, the decision maker operating within a risk seeking environment should be expected to maintain or escalate the existing level of commitment, even when no need for justification or other entrapping factors are present. Thus, the natural propensity on the part of the individual to seek risk may lead to escalation even in the absence of need for justification, entrapping elements, or a strong culture. Therefore,

Proposition 2: The greater the degree of combined individual and organizational risk seeking, the greater the likelihood of escalation of commitment.

Similarly, when both the individual and the organization are risk averse, escalation should not occur in most instances. However, one potential exception to the foregoing generalization may occur when the organizational culture is weak (Davis-Blake & Pfeffer, 1989) and the individual is subject to the influences of individuation or loss realization, as discussed above. In such a case, beliefs and values may not be widely shared (Schein, 1992) or clearly transmitted throughout the organization such that individuals are able to discern a coherent message or set of expectations (Ravasi, 2006). Escalation might then occur as a result of the decision maker's desire to achieve a turnaround in order to justify the previous decision, notwithstanding personal risk aversion that might otherwise control the outcome. Particularly in the case of failing projects, prospect theory (Kahneman & Tversky, 1979) predicts risk seeking behavior. The weakness of the organization's culture thus can be expected to interact with responsibility to produce an outcome contrary to the inherent, if unspecified or only weakly specified, desires of the organization.

Proposition 3: The greater the degree of combined individual and organizational risk aversion, the lower the likelihood of escalation of commitment.

Corollary 3a: The greater the degree of individual and organizational risk aversion, the greater the likelihood that escalation will be avoided if organizational culture is strong, but the weaker the organizational culture, the greater the likelihood that escalation will occur if individuation is present.

When individual and organizational risk preferences are not aligned with one another, the ultimate decision depends upon the interaction of psychological influences with strength of culture. In the case of individual risk seeking and organizational risk aversion, a strong culture suggests greater behavioral conformity (McNamara, Moon & Bromiley, 2002; Sorensen, 2002). In such an environment, individual risk propensities or preferences have less impact as motivators. In particular, if individuation induces a risk propensity (Sitkin & Weingart, 1995) favoring risk-seeking behavior and escalation, internal processes reflecting the organization's risk aversion are likely to constrain the individual's choices in a way that minimizes or eliminates the likelihood of escalation (McNamara, Moon & Bromiley, 2002). While individual risk preferences favoring risk-seeking may be more difficult to constrain, given that they represent stable traits and therefore are more likely to exert

constant influence than individuation processes (Sitkin & Weingart, 1995), Ravasi (2006) noted that strong cultures transmit behavioral signals and clues to the individual that guide subsequent behavior. Thus, even where stable dispositions are at issue, cultural strength will limit an individual's sense of decisional freedom. However, this discussion suggests how easily these individual preferences can be acted upon if the organizational culture is weak and the individual is subject to individuation or is otherwise risk-seeking. Without the organization's clear and consistent cues (Ravasi, 2006) to signal accepted behavior, conformity is less likely to occur (Davis-Blake & Pfeffer, 1989), and the individual is more likely to act upon then-existing risk preferences and propensities (Sitkin & Weingart, 1995) by pursuing escalation. Thus,

Proposition 4: The greater the degree of organizational risk aversion and strength of culture, the lower the likelihood of escalation, even given individual risk seeking, but the weaker the organizational culture and the greater the level of psychological influences, the greater the likelihood of escalation.

Finally in those cases in which the organization is risk seeking and the individual is risk averse, we should expect the stimulus of organizational imperatives in a strong culture to overcome any individual tendency to avoid risk. This is precisely the scenario suggested by Lumpkin and Dess (1996), who noted that "at the level of the firm, risks are taken that would not be taken by a firm member" (p. 145). Thus, even for an individual lacking in risk-seeking tendencies, the behavioral cues at the organizational level (Ravasi, 2006), embedded in and reinforced by a strong culture inducing conformity (Davis-Blake & Pfeffer, 1989; Schein, 1992), will induce a risk-seeking propensity and, ultimately, escalation. This tendency will be even stronger in those cases in which an individual's stable preferences for risk-aversion are acted upon by individuation processes. However, as suggested above, in a weak culture virtually no direct influences bear upon the individual to countermand his or her internal standards with regard to risk, and in such cases we should expect a decision to avoid escalation.

Proposition 5: The greater the degree of organizational risk seeking and strength of culture, the greater the likelihood of escalation, even when the individual is risk averse, but the weaker the organizational culture and the lower the level of psychological influences, the lower the likelihood of escalation when the individual is risk averse.

CONCLUSION

This article has attempted to expand the findings of previous research on the escalation phenomenon. The view posited here explicitly recognizes the influence of risk

preferences and organizational culture and argues that the decision process is a complex interplay of such individual and organizational characteristics. Specifically, the extent of organizational and individual risk preference congruence relative to the strength of organizational culture and the extent to which the decision maker is subject to the psychological influences identified in the existing literature are viewed as predictors of escalation.

It is particularly important to note that where differences in organizational and individual risk profiles exist, this article proposes that organizational preferences will be followed in all cases but those involving weak organizational culture in combination with psychological influences that magnify individual risk preferences, thereby producing outcomes that are contrary to the presumed organizational choice with respect to risk. Organizations thus may wish to pay particular attention to the circumstances producing such behaviors given the potential dysfunctional outcomes that may result. The clear implication of this discussion is that organizations that implement specific policies are more likely to succeed in controlling influences that otherwise operate to provide individual decision makers with what amount to cross-incentives (e.g., McNamara, Moon & Bromiley, 2002). Moreover, to the extent organizations are concerned with promoting outcomes such as appropriate levels of risk-seeking or risk-averse behaviors and decisions, attention to cultural cues (Ravasi, 2006) outside of policies and procedures also is important as part of an overall effort to develop and sustain a strong culture.

This raises an important issue that remains for future research to investigate and develop, specifically the distinction, if any, between cultural strength arising from procedural sources (McNamara, Moon & Bromiley, 2002) and that arising from shared values inherent in the culture itself (Schein, 1992). For purposes of determining organizational influences on individual decision-making, it is not necessarily clear which of the foregoing cultural features is necessary and which is sufficient, or whether both are necessary to secure the desired outcome.

Likewise, is there a difference in effect between either culture or procedures and incentives? We are beginning to appreciate how difference incentive systems affect risk perception and behavior (e.g., Wiseman & Gomez-Mejia, 1998). Future research investigating the differential effects of incentives on escalation would add to both literature streams.

Finally, there are many potential avenues of inquiry relating to person-organization fit (e.g., Chatman, 1989; Schneider, 1987) inherent in the framework presented in this article. If organizational and individual risk preferences are not in alignment, will the individual or the organization terminate the relationship at some point? What are the circumstances under which either might do so? These are important questions not only for the escalation phenomenon,

but for understanding of culture and decision-making interactions more broadly.

In sum, organizations exert influence and pressure on individuals through culture and procedures. In decision-making contexts, these pressures can facilitate positive outcomes, or less-productive outcomes, such as escalation. Understanding the dynamics of these processes is important not only for the immediate decisions involved, but also for long-term organizational success.

REFERENCES

- Baird, I.S., & Thomas, H. 1985. Toward a contingency model of strategic risk taking. *Academy of Management Review*, 10, 230-243.
- Becker, H.S. 1960. Notes on the concept of commitment. *American Journal of Sociology*, 66, 32-40.
- Bowen, M.G. 1987. The escalation phenomenon reconsidered: Decision dilemmas or decision errors? *Academy of Management Review*, 12, 52-66.
- Brockhaus, R.H. 1980. Risk-taking propensity of entrepreneurs. *Academy of Management Journal*, 23, 509-520.
- Brockner, J. 1992. The escalation of commitment to a failing course of action: Toward theoretical progress. *Academy of Management Review*, 17, 39-61.
- Brockner, J., & Rubin, Z. 1985. *Entrapment in escalating conflicts*. New York: Springer-Verlag.
- Brockner, J., Rubin, J.Z. & Lang, E. 1981. Face-saving and entrapment. *Journal of Experimental and Social Psychology*, 17, 68-79.
- Brockner, J., Rubin, J.Z., Fine, J., Hamilton, T.P., Thomas, B. & Turetsky, B. 1982. Factors affecting entrapment in escalating conflicts: The importance of timing. *Journal of Research in Personality*, 16, 247-266.
- Brockner, J., Nathanson, S., Friend, A., Harbeck, J., Samuelson, C., Houser, R., Bazerman, M.H. & Rubin, J.Z. 1984. The role of modeling processes in the "Knee Deep in the Big Muddy" phenomenon. *Organizational Behavior and Human Performance*, 33, 77-99.
- Brockner, J., Houser, R., Bimbaum, G., Lloyd, K., Deitcher, J., Nathanson, S. & Rubin, J.Z. 1986. Escalation of commitment to an ineffective course of action: The effect of feedback having negative implications for self-identity. *Administrative Science Quarterly*, 31, 109-126.
- Byrne, J.A. 2002. At Enron, "The environment was ripe for abuse." *Business Week Online*, Feb. 25.

- Chatman, J.A. 1989. Improving interactional organizational research: A model of person-organization fit. *Academy of Management Review*, 14, 333-349.
- Chatman, J.A., & Barsade, S.G. 1995. Personality, organizational culture, and cooperation: Evidence from a business simulation. *Administrative Science Quarterly*, 40, 423-443.
- Chatman, J.A., & Jehn, K.A. 1994. Assessing the relationship between industry characteristics and organizational culture: How different can you be? *Academy of Management Journal*, 37, 522-553.
- Chiles, T.H., & McMackin, J.F. 1996. Integrating variable risk preferences, trust, and transaction cost economics. *Academy of Management Review*, 21, 73-99.
- Davis-Blake, A., & Pfeffer, J. 1989. Just a mirage: The search for dispositional effects in organizational research. *Academy of Management Review*, 14, 385-400.
- Festinger, L. 1957. A theory of cognitive dissonance. Row, Peterson: Evanston, IL.
- Fiegenbaum, A. & Thomas, H. 1986. Dynamic and risk measurement perspectives on Bowman's risk-return paradox for strategic management: An empirical study. *Strategic Management Journal*, 7, 395-407.
- Fischhoff, B., Lichtenstein, S., Slovic, P., Derby, S.L. & Keeney, R.L. 1981. Acceptable risk. Cambridge, England: Cambridge University Press.
- Fox, F.V. & Staw, B.M. 1979. The trapped administrator: Effects of job insecurity and policy resistance upon commitment to a course of action. *Administrative Science Quarterly*, 24, 449-471.
- Garland, H. 1990. Throwing good money after bad: The effect of sunk costs on the decision to escalate commitment to an ongoing project. *Journal of Applied Psychology*, 75, 728-731.
- Hayward, M.L.A. & Shimizu, K. 2006. De-commitment to losing strategic action: Evidence from the divestiture of poorly performing acquisitions. *Strategic Management Journal*, 27, 541-557.
- Janis, I.L. November, 1971. Groupthink. *Psychology Today*.
- Johns, G. 2006. The essential impact of context on organizational behavior. *Academy of Management Review*, 31, 386-408.
- Kahneman, D. & Tversky, A. 1979. Prospect theory: An analysis of decision under risk. *Econometrica*, 47, 263-291.
- Leatherwood, M.L. & Conlon, E.J. 1987. Diffusibility of blame: Effects on persistence in a project. *Academy of Management Journal*, 30, 836-847.
- Lumpkin, G.T., & Dess, G.G. 1996. Clarifying the entrepreneurial orientation construct and linking it to performance. *Academy of Management Review*, 21, 135-172.
- Lydon, J.E. & Zanna, M.P. 1990. Commitment in the face of adversity: A value-affirmation approach. *Journal of Personality and Social Psychology*, 58, 1040-1047.
- March, J.G. & Shapira, Z. 1987. Managerial perspectives on risk and risk taking. *Management Science*, 33, 1404-1418.
- McNamara, G., Moon, H. & Bromiley, P. 2002. Banking on commitment: Intended and unintended consequences of an organization's attempt to attenuate escalation of commitment. *Academy of Management Journal*, 45, 443-452.
- Miller, K.D. & Chen, W. 2004. Variable organizational risk preferences: Tests of the March-Shapira model. *Strategic Management Journal*, 47, 105-115.
- Morgan, G. 1986. *Images of organization*. Beverly Hills, CA: Sage.
- Northcraft, G.B. & Wolf, G. 1984. Dollars, sense, and sunk costs: A life cycle model of resource allocation decisions. *Academy of Management Review*, 9, 225-234.
- O'Reilly, C. 1989. Corporations, culture, and commitment: Motivation and social control in organizations. *California Management Review*, 31, 9-25.
- Osborn, R.N. & Jackson, D.H. 1988. Leaders, riverboat gamblers, or purposeful unintended consequences in the management of complex dangerous technologies. *Academy of Management Journal*, 31, 924-947.
- Ravasi, D. 2006. Responding to organizational identity threats: Exploring the role of organizational culture.
- Ross, J., & Staw, B.M. 1986. Expo 86: An escalation prototype. *Administrative Science Quarterly*, 31, 274-297.

- Ross, J., & Staw, B.M. 1993. Organizational escalation and exit: Lessons from the Shoreham nuclear power plant. **Academy of Management Journal**, 36, 701-732.
- Rowe, W.D. 1977. *An anatomy of risk*. New York: Wiley.
- Rubin, J.Z. & Brockner, J. 1975. Factors affecting entrapment in waiting situations: The Rosencrantz and Guildenstern effect. **Journal of Personality and Social Psychology**, 31, 1054-1063.
- Salancik, G.R. & Pfeffer, J. 1978. A social information processing approach to job attributes and task design. **Administrative Science Quarterly**, 23, 224-253.
- Schein, E.H. 1992. **Organizational culture and leadership**. San Francisco: Jossey-Bass.
- Schneider, B. 1987. The people make the place. **Personnel Psychology**, 40, 437-453.
- Shimizu, K. 2007. Prospect theory, behavioral theory, and the threat-rigidity thesis: Combinative effects on organizational decisions to divest formerly acquired units. **Academy of Management Journal**, 50, 1495-1514.
- Simonson, I., & Staw, B.M. 1992. Deescalation strategies: A comparison of techniques for reducing commitment to losing courses of action. **Journal of Applied Psychology**, 77, 419-427.
- Sitkin, S.B. & Pablo, A.L. 1992. Reconceptualizing the determinants of risk behavior. **Academy of Management Review**, 17, 9-38.
- Sitkin, S.B. & Weingart, L.R. 1995. Determinants of risky decision-making behavior: A test of the mediating role of risk perceptions and propensity. **Academy of Management Journal**, 38, 1573-1592.
- Sorensen, J.B. 2002. The strength of corporate culture and the reliability of firm performance. **Administrative Science Quarterly**, 47, 70-91.
- 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. & Ross, J. 1978. Commitment to a policy decision: A multi-theoretical perspective. **Administrative Science Quarterly**, 23, 40-64.
- Staw, B.M. & Ross, J. 1988. Good money after bad: Why do we become overly committed to losing projects? **Psychology Today**, 22, 30-33.
- Weber, M. 1978. **Economy and society**. (G. Roth & C. Wittich, Eds.), Berkeley, CA: The University of California Press.
- Whyte, G. 1986. Escalating commitment to a course of action: A reinterpretation. **Academy of Management Review**, 11, 311-321.
- Whyte, G. 1989. Groupthink reconsidered. **Academy of Management Review**, 14, 40-56.
- Wiseman, R.M. & Gomez-Mejia, L.R. 1998. A behavioral agency model of managerial risk taking. **Academy of Management Review**, 23, 133-153.
- Wolman, B.B. (Ed.). 1989. *Dictionary of behavioral science*. San Diego, CA: Academic Press.
- Yates, J.F., & Stone, E.R. 1992. The risk construct. In J.F. Yates (Ed.), **Risk taking behavior**. New York: Wiley.

William J. Donoher is an Assistant Professor of Management at Missouri State University. He received his Ph.D. from the University of Missouri at Columbia, and a J.D. from Washington University in St. Louis. He has published widely and made more than 20 conference presentations. His current research interests include corporate bankruptcy; corporate governance; incentive structures and compensation, including their effects on decision-making; and the legal and ethical environment of business.