Commitment Thinking

Idea In Short

Money, time, and reputation already spent cannot be recovered, so they should not drive the next decision. Yet leaders routinely add resources to failing projects because they feel responsible for the first choice. Research on escalation of commitment shows that personal responsibility, a desire to justify earlier decisions, and optimism about a turnaround all push people to continue. To counter these forces, ask what you would do if you inherited the project today, set exit criteria before launch, and separate the person who approves the next stage from the person who proposed the project. Review every major project against its exit criteria at each stage gate, and reward people who stop failing efforts early.

Most leaders say they ignore sunk costs. Few do. A project that has absorbed two years and several million dollars carries a story, a team, and a reputation, and all three argue for one more round of funding. Commitment thinking gives leaders a way to resist that pull. This article explains why escalation happens, summarizes what researchers have found, and offers practical controls that organizations can build into their stage gates.

The logic and the trap

A sunk cost is money, time, or effort that you have already spent and cannot recover. Rational choice looks only forward, which means the next dollar should go to the option with the best future return, whatever happened before. The trap is that humans feel past spending as a loss that continuing might redeem, and stopping makes the loss real. The feeling is strong even among experienced executives who understand the logic.

Hal Arkes and Catherine Blumer gave the pattern a name in their 1985 paper on the psychology of sunk cost. Their work showed that people who had paid more for something used it more, even when the extra use had no connection to the value they received. Business projects offer the same temptation at a larger scale, with careers attached.

What Staw found in the big muddy

Barry Staw ran an early experiment that gave the field its foundation. Participants played the role of a corporate financial officer who had to allocate research funds to one of two divisions, and later they allocated again after the division performed poorly. Those who had made the first allocation personally committed more resources to the losing division than those who inherited the decision.1 The finding suggests that responsibility itself, rather than the facts of the case, pushes people to continue.

The result carries a lesson for governance. A sponsor who proposed a project cannot be the only person who decides whether to continue it. The sponsor has a stake in the original judgment, and the stake distorts the reading of new evidence.

What the research adds

Later studies expanded the picture. Joel Brockner reviewed the field in 1992 and organized the explanations for why people persist in failing courses of action, including self-justification, the wish to avoid waste, and the social pressure to appear consistent.2 His review moved the discussion beyond a single explanation and showed that several forces usually act together.

In 2012, Dustin Sleesman and colleagues combined the results of many studies in a meta-analysis. They sorted the determinants of escalation into four groups: project factors, psychological factors, social factors, and structural factors.3 The grouping helps managers because each group points to a different control. Project factors call for better information, psychological factors for awareness and decision rules, social factors for independent review, and structural factors for changes in incentives and process.

Positive feelings can make it worse

The University of Delaware reported on research by Sleesman that found a result many leaders will not expect. Positive feelings about a project, such as enthusiasm and confidence, can drive people to escalate, and the effect is strongest when a leader feels good about the plan and sees the setback as temporary.4 The finding matters because organizations often prize optimism, and a culture of confidence can protect a failing project longer than a culture of doubt would.

The remedy is a counterweight, not pessimism. A team can pair enthusiasm with a standing request for the strongest evidence against the project. Someone should have the explicit job of arguing that the project should stop, and the leader should reward that person for doing it well.

Practical guidance from the Harvard Business Review

Barry Staw and Jerry Ross described the issue for practitioners in a Harvard Business Review article titled "Knowing when to pull the plug." The article treats escalation as a problem that managers can address through the design of their decision process.5 Leaders can build that process so that stopping becomes a normal outcome and carries no stigma.

A company can start with three controls. First, require a written exit criterion before funding any project above a set size. Second, assign the stage-gate review to someone who did not propose the project. Third, record every stop decision as a learning event and share the lessons widely.

Five questions for any running project

Use the following questions at each stage gate:

1. What would we do if we inherited this project today?
2. What evidence would convince us to stop, and have we seen any of it?
3. Who benefits from continuing, and who benefits from stopping?
4. What does the next tranche of money buy that the last one did not?
5. What is the cheapest way to test our central assumption before we spend more?

Run the questions in a short meeting with the sponsor and at least one outsider, and write the answers down. A written record makes it harder to rewrite the reasoning after the fact. The first question does the most work. A leader who imagines inheriting the project sees the future costs and benefits without the weight of past commitment. If the answer differs from the current plan, the gap measures how much the sunk cost is distorting the decision.

A hypothetical case

Imagine a software company that spent three years and a large budget building its own

analytics platform. A competitor now sells a comparable product for a fraction of the remaining cost. The project sponsor argues that the company has come too far to stop, and the board feels uneasy about writing off the work.

The inheritance question changes the discussion. A new executive who took over today would compare two paths: finish the platform at the remaining cost, or license the competing product and redeploy the team. The money already spent appears in neither path. If the license path wins on future cost and speed, the company should take it, and the board should record that the earlier investment taught the team valuable lessons about its customers. If the finish path wins, the company continues, now for the right reason.

When past spending still matters

Ignoring sunk costs does not mean ignoring everything that came before. Prior work often produces assets that carry future value, such as trained staff, customer relationships, and reusable code, and a sound analysis counts those assets among the benefits of continuing. Reputation matters too, since a firm that abandons commitments carelessly may lose the trust of partners. The discipline lies in separating money already gone from value still available, and in testing each claimed benefit against evidence instead of sentiment. A project deserves funding when its future benefits exceed its future costs, and the analysis should show both sides in plain numbers.

Making it stick

Culture decides whether these controls work. If a leader who stops a project loses status, people will hide bad news and the controls will fail. If the same leader gains credit for redirecting resources to better uses, the organization will surface problems earlier. Pay attention to how the next stopped project is discussed in public, since the story will shape the next hundred decisions. Leaders who explain the reasoning behind a stop decision in plain language teach the whole organization how to think about commitment.

Finally, give stopped projects a proper close. Hold a short review that records what the team learned, what assumptions failed, and which assets can be reused. The review honors the effort, preserves the knowledge, and signals that stopping is a form of good management.

- 1Knee-deep in the big muddy: a study of escalating commitment to a chosen course

of action

- 2The escalation of commitment to a failing course of action: toward theoretical progress
- 3Cleaning up the big muddy: a meta-analytic review of the determinants of escalation of commitment
- 4When it comes to decisions, breaking up is hard to do
- 5Knowing when to pull the plug

Summary

Commitment thinking asks leaders to judge every project by its future cost and benefit, whatever the past spending was. The research tradition that began with Barry Staw in the 1970s shows that responsibility for a decision raises the odds of throwing good money after bad, and later reviews of many studies identify project, psychological, social, and structural forces behind the pattern. Organizations can reduce the effect through exit criteria set in advance, independent reviewers, and a culture that treats a stopped project as a lesson instead of a failure. Start with your largest running project and ask the inheritance question today.