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Wearing out your shoes to prevent someone else from stepping into them: Anticipated regret and social takeover in sequential decisions

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Abstract

Comparisons with counterfactual outcomes can influence choices in sequential decisions. We examine the effect of anticipated regret, and "social takeover"—the knowledge that someone else might take over an investment one has abandoned—on persistence on an investment task. Some participants received feedback about what would have happened if they had continued investing and others did not. Some knew that another person had the opportunity to pick up their investment where they left off and others did not. Data collected from 84 dyads showed effects of both experimental manipulations. Participants invest longer, on average, when another person could take over from their previous investments, and when feedback was provided. Both anticipated regret and social takeover appear to increase the tendency to stick with an investment.
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"If you don't take her out tonight, she's going to change her mind, and I will take her out tonight, and I will treat her kind."

John Lennon & Paul McCartney ("You're Going to Lose That Girl," 1965)

Imagine a cold winter evening. You are at a street corner, waiting for a taxi that you ordered. After a while, you call the dispatcher again, and are informed that your taxi is on its way. Shortly afterwards, another person arrives at the street corner and apparently also waits for a taxi. Ten minutes later you become restless. Should you wait any longer? Maybe you should walk to the next, bigger street corner to take your chances there? But what if you decide to walk away, and, after you leave the curbside, the taxi you ordered arrives at last and then picks up the other person? Does the presence of the other person affect your decision? More generally, does the presence of another person who might "step in" and take over your investment increase your likelihood of sticking with it? Lennon and McCartney, apparently, believed that this was the case; otherwise why would the threat of someone else taking your "girl" out deter you from leaving her?

Quitting on an investment, of course, has a downside whether or not someone else takes it over. There is a cost to "closing the books" at a loss, as discussed in the literature on mental accounting (Thaler, 1999). In addition, there is a potential for regret if one receives information about what would have happened had one persisted. Selling a losing stock is extra painful if one learns from the news that the stock made a comeback days after you sold, which may deter one from taking the plunge. Likewise, selling a condo in a buyer's market is especially unpleasant if the housing market revives shortly after you sell your unit, fear of which might motivate one to hold on to it for longer than one would if there were no threat of receiving such feedback (Genesove & Mayer, 2001).

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The unpleasant feelings described in these examples are primarily evoked by the information that one could have done better than one did, but might be considerably stronger if one contemplates that someone else benefited from one's decision.

We present results from an experiment that examines both of these factors—the prospect of receiving feedback on an investment one abandons, and the possibility that someone else may take over the investment—on individual decisions to either continue investing or bail out on a risky venture. In what follows, we first review the literature on sequential decisions, then review the literature on the role of counterfactual comparisons in decision-making. We hypothesize that both the prospect of receiving feedback, and the prospect of someone else taking over one's investment—"social takeover"—should deter people from abandoning an investment, and test both hypotheses in an experimental study. Finally, we discuss some specific applications and general implications of our findings.

Escalation and de-escalation of commitment in sequential decisions

Many decisions have a sequential element: whether to use a concert ticket bought a few months ago; whether to use the lift pass on the last day of a ski trip despite bad weather; whether to invest more money in a project. Normative theory prescribes that decisions of this type should be made on the margin, taking only prospective costs and benefits into account. Empirical research has shown two forms of violations of this prescription: escalation and de-escalation of commitment, i.e., continuing longer or quitting earlier as a result of earlier investments.

Escalation of commitment (Staw, 1976), also termed the 'sunk cost effect' (Arkes & Blumer, 1985) or 'entrapment' (Rubin & Brockner, 1975), occurs when irretrievable investments (sunk costs) increase the propensity of decision-makers to invest additional resources. For example, Arkes and Blumer (1985) had participants imagine that they were a company president who had to decide whether to invest $1 million to develop a radar-blank plane, even though another firm had just begun marketing a similar but better plane. In one version, the decision was described as being preceded by $9 million already invested into the project, while in the other version no previous investment had been made. In this and similar scenarios, more participants decide to invest in the version with previous investments than in the version without previous investment. Theoretical accounts of escalation of commitment focus on increased risk-seeking in the domain of losses (Arkes & Blumer, 1985; Thaler, 1980; Whyte, 1993), wanting to avoid the impression of being wasteful (Arkes & Blumer, 1985; Arkes & Ayton, 1999), and justification of the original decision to 'save face' (Brockner, 1992; Fox & Staw, 1979). Although a large body of research has accumulated (see Brockner, 1992; Camerer & Weber, 1999; Heath, 1995 for reviews), recent findings have cast doubt on the notion that sunk cost effects are as robust as suggested. In some studies, sunk costs were confounded with the degree to which the project was already completed. When these factors were manipulated orthogonally, robust effects of project completion were observed, but no effects of sunk costs (Boehne & Paese, 2000; Conlon & Garland, 1993; Garland & Conlon, 1998).

Of particular interest for the present paper are studies on social factors in escalation of commitment. Studies examined whether individuals escalate less or more than groups (e.g., Kameda & Sugimori, 1993; Moon et al., 2003; Whyte, 1993), whether escalation is imitated by observers (Brockner et al., 1984), whether escalation is more likely under competition (Brockner & Rubin, 1985; Teger, 1980), whether the presence and quality of an audience influence escalation (Brockner, Rubin, & Lang, 1981; Brockner et al., 1982), and whether accountability for the process and the outcome of decisions matter for escalation (Simonson & Staw, 1992). The notion of social takeover has not so far been examined.

De-escalation of commitment occurs when previous investments decrease the propensity to invest additional resources. Some studies have reported such an opposite sunk cost effect (Garland & Conlon, 1998, study 2; Garland, Sandefur, & Rogers, 1990). In an influential paper, Heath (1995) documented non-normative de-escalation in investment situations, and proposed a theoretical account of when it occurs. His explanation builds on *mental budgeting* (e.g., Heath & Soll, 1996; Thaler, 1980) and predicts whether and when escalation or de-escalation will occur (Heath, 1995): Escalation will occur if a budget is not set, or when it is difficult to track additional investments; however, if a budget is set, de-escalation can occur if people dislike spending past the point where expenses exceed possible returns.

Heath (1995) also pointed out that some earlier studies that had been interpreted as providing evidence of escalation of commitment actually provided evidence of the opposite–irrational de-escalation. Results in the *counter game* (e.g., Brockner & Rubin, 1985; Brockner et al., 1984; Brockner, Shaw, & Rubin, 1979), originally interpreted as showing entrapment, can actually be read the opposite way. Brockner et al. (1979) confronted participants with an electronic counter that increased from 1 to 500, and told them that at a randomly determined number they would win an additional jackpot of $2. Participants were endowed with a $4 budget, for each tick of the counter 1 cent was subtracted from their budget, and after every 20 ticks they were asked whether they wanted to continue or quit. In such a situation, the marginal probability of winning increases with every tick and the marginal benefit of additional investment is increasing,

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