Sunk Cost Effects in Consumer Decisions: Role of Anticipated Regret

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A prior cost or investment that already occurred in the past should not influence a current decision. Yet, it often exerts a strong influence. This “sunk cost” effect has previously been demonstrated over numerous settings. Three experiments in this paper examined mediating processes for the effect. Experiment 1 employed self-report measures of various alternative mediators and provided initial evidence that decision makers’ anticipated regret from inaction might be responsible for the effect. Experiments 2-3 then examined the regulatory focus (promotion vs. prevention focus) as a potential moderator for the sunk cost effect, and showed that the effect was restricted to the conditions in which participants’ regulatory focus matched the nature of the decision target (i.e., when there was a “regulatory fit”). These and other results indicated that decision makers’ anticipated regret from inaction decisions is the reason for the sunk cost effect.

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EXTENDED ABSTRACT

One should base one’s decision on the incremental costs and benefits of undertaking any action. Thus, a prior cost or investment that already occurred in the past should not influence a current decision. Yet, it often exerts a strong influence. This “sunk cost” effect has been previously demonstrated in numerous settings (e.g., Arkes and Ayton 1999; Conlon and Wolf 1980; Garland 1990; Heath 1995; Moon 2001; Soman and Cheema 2001; Staw and Hoang 1995). The effect has been also demonstrated when the sunk cost is related to time as well as to money (e.g., Soman 2000). The present research attempted to extend the literature by examining various alternative mediating processes that might be responsible for the effect and identifying boundary conditions for the effect that have not been previously investigated.

Several explanations of the sunk cost effect have been proposed by various researchers (see Arkes and Blumer 1985 for a review). There are at least five processes that are potentially responsible for the effect: perceived cost of future action, perceived benefit of future action, anticipated regret from inaction, perceived wastefulness, and perceived justifiability. The present research examined these alternative mediators in two ways. First, self-report measures of mediators were obtained and their mediation role was tested in covariate analyses. Second, a regulatory focus (promotion focus versus prevention focus) and regulatory fit, both of which were likely to influence the level of anticipated regret from inaction, were experimentally manipulated and their impact on the sunk cost effect was then examined.

Three experiments were conducted to examine the sunk cost effect in situations in which people who either had purchased an outdoor concert ticket (sunk cost conditions) or just obtained it for free (no sunk cost conditions) had to decide whether or not to attend the concert in an adversary situation (e.g., in a very cold weather). In addition to this sunk cost variable, Experiment 2 manipulated participants’ regulatory focus, and Experiment 3 manipulated the regulatory fit between the regulatory focus (promotion focus versus prevention focus) and the frame of an ad message for the concert (fit versus non-fit).

Results from the experiments consistently showed a significant sunk cost effect. That is, participants in the sunk cost conditions were more likely to attend the concert, compared to those in the no-sunk cost conditions. This effect was true regardless of whether the dependent measure was a dichotomous variable (i.e., Y/N decision) or a continuous variable (i.e., intention ratings).

In addition, results from the experiments provided consistent support for the mediation role of anticipated regret from inaction. First, in all three experiments self-report ratings of anticipated regret from inaction were obtained and their mediation role was analyzed. Results indicated that the ratings were significantly higher in the sunk cost conditions than in the no-sunk cost conditions. Furthermore, controlling the ratings as a covariate eliminated the effect that the sunk cost manipulation had on decisions. This suggests that the anticipated regret was responsible for the sunk cost effect. Second, Experiment 2, which manipulated individuals’ regulatory focus, showed that the sunk cost effect was significantly moderated by the regulatory focus. That is, the effect was restricted to conditions in which participants were promotion focused. This provides additional support for the mediation role of anticipated regret from inaction.

Experiment 3, which manipulated the regulatory fit between participants’ regulatory focus and the message frame of an ad, showed that the sunk cost effect on decisions was more pronounced when there was a regulatory fit between the ad message and individuals’ regulatory focus than when there was a non-fit. This effect was likely to be due to the increased level of anticipated regret in the former conditions, compared to the latter conditions. This suggests that the moderation effect of the regulatory focus found in Experiment 2 may not be simply due to the promotion nature of individuals. It may be rather due to the matches between the type of decision target (e.g., promotion vs. prevention-focused ad message) and the individuals’ regulatory focus.

Finally, these and other results suggest that decision makers’ anticipated regret from inaction is the reason for the sunk cost effect to occur. Theoretical and managerial implications of findings are discussed.

References