Breaking Free From the Sunk Investment: the Role of Positive Affect and Instrumental Attitude Toward Resource Investment in Reducing Sunk Cost Bias

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Four studies examined the influence of incidental positive affect on sunk cost bias in everyday consumer decision making. Results from hypothetical and real choice tasks show that inducing positive affect attenuates consumers’ sunk cost bias by fostering an instrumental (vs. terminal) attitude toward monetary investment.

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EXTENDED ABSTRACT

Sunk cost bias is a pervasive problem in consumer decision making that occurs when people continue allocating resources to failing endeavors (Arkes and Blumer 1985; Staw 1976, 1981). This tendency exists because people often focus on prior investments without considering the possibility of failed future returns. While many suggested interventions to attenuate this bias involve altering cognitive processes, the current research examines an alternative affective route. Specifically, we propose that inducing positive affect can mitigate consumers’ tendency to rely on sunk costs when making future commitment decisions.

We posit that sunk cost bias is associated with people’s attitude toward previously invested money or other economically constrained resources. That is, normatively people tend to view their own resource investments as an ultimate asset to conserve or maximize (terminal attitude), and thus salvaging a prior investment is more likely to be prioritized in the decision process. We propose that positive affect naturally attenuates this terminal attitude toward resource investment. Prior work suggests that positive affect enhances people’s cognitive flexibility (Ashby, Isen, and Turken 1999; Isen 2008; Pyone and Isen 2011) and thus broadens their scope of thinking (Fredrickson 2001).

In the context of present research, we suggest that positive affect allows people to consider their prior investment in the context of a long-term gain, and thus it will enable consumers to view their prior monetary investment as an instrumental resource to be used for the long-term gain (vs. terminal resource that needs to be salvaged). Thus, when a prior monetary investment is useful in bringing about a long-term gain, people experiencing positive affect will continue to invest in a prior endeavor. However, when a monetary investment is dissociated from a long-term gain, people experiencing positive affect will acknowledge that their prior investment has no instrumental value and thus disregard it in their reinvestment decision, stopping their commitment to it (i.e., reducing sunk cost bias).

We tested our hypothesis over four studies. In Study 1, we test the influence of positive affect on a typical sunk cost problem in everyday consumer decisions involving money. Participants watched either an amusing film clip or a neutral clip depending on their affect condition and then made a commitment decision about an apartment. Specifically, they were asked to choose between an apartment for which they already paid a non-refundable deposit and a new apartment which provide a better long-term benefit. The results showed that the majority of the neutral affect condition chose to keep the old apartment as they planned. However, this commitment tendency was significantly decreased in the positive affect condition.

In Study 2, we test our core effect in a real choice setting and examine if positive affect can attenuate sunk cost bias involving a behavioral resource (effort). Participants were asked to choose their own pen to take after the study. They were led to invest either a high or low amount of effort in choosing their own pen. After making their initial choice, respondents were presented with one more decision. Specifically, the experimenter asked if respondents would like to trade the pen they chose for a superior pen that received a higher rating than their current option. Respondents’ decision to switch or not was recorded and all respondents received their choice of pen after the experiment. The results showed that when participants invested a minimal amount of effort (low sunk cost), the neutral and positive affect conditions did not differ in their decision to keep their original pen. However, when respondents had to spend the extra effort choosing their pen, those in the neutral affect condition showed a greater tendency to keep their initial choice. In contrast, those in the positive affect condition were more willing to switch to the better alternative.

In Study 3, we investigate whether the proposed attenuating effect of positive affect depends on the decision context: specifically, whether the previously incurred cost is redeemable into a long-term gain or not (whether it has instrumental value or not). The results showed that those who were experiencing positive affect were successfully able to disregard their prior investment in their decision making when it was irredeemable (sunk). However, when it was redeemable, they showed continued commitment as controls did.

Finally, in Study 4, we examine our proposed mechanism. We found that participants experiencing positive affect were less likely to view their monetary investment as terminal but more as instrumental resources, and this attenuated terminal attitude toward money mediated the relationship between positive affect and the reduction of sunk cost bias. Taken together, the results of four studies involving hypothetical as well as real consumer choices provide consistent evidence that inducing positive affect reduces sunk cost bias in consumer decision making.

REFERENCES