The Effect of Image Compatibility and Escalation of Commitment on Decision Performance

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The Effect of Image Compatibility and Escalation of Commitment on Decision Performance

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This study aims at empirically examining the extent to which Image Theory, initially developed as a theoretical basis for selecting a strategy or a decision, can be a theoretical basis for predicting a decision performance in two opposite frames: positive and negative. Image compatibility are employed to operationalize such a theory and the decision under study is progress decision represented by escalation of commitment. Thus, this study also empirically examines the connection between image compatibility and escalation of commitment as well as escalation of commitment as a mediator of the relationship between image compatibility and decision performance. The research context is Indonesia Stock Exchange (IDX) that suffered from crisis in the past year (negative frame) yet has been recovered recently (positive frame). The respondents are 229 individual investors in IDX. They are involved in day-to-day decision making (progress decision making) with regard to their investment portfolio. The results of this study show that high image compatibility tends to lead to better decision performance in both frames. However, image compatibility may only positively affect the escalation of commitment in positive frame.

**Keywords**: Decision making, image theory, image compatibility, escalation of commitment, framing, investment, decision performance.

Introduction

Since first introduced by Beach and Mitchell (1987), Image Theory has developed significantly. Many studies have been conducted to support, enrich, and extend such a theory. Examples are Beach and Strom (1989), Beach, Puto, Heckler, Naylor and Marble (1996), Beach, Smith, Lundell and Mitchell (1988), Benson and Beach (1996), Dunegan (1995), Dunegan, Duchon and Ashmos (1995), and Rediker, Mitchell, Beach and Beard (1993). In addition, some other research studies have employed Image Theory in the fields of leadership (Dunegan, 2003), consumer decision making (Nelson, 2004), business ethics (Morell, 2004), and employee appraisal (Pesta, Kass & Dunegan, 2005).

Image Theory itself assumes that individuals use three cognitive structures in making a decision (Beach & Mitchell, 1987). They are (1) value image which is decision maker’s moral, belief, values and responsibility or something that motivates him or her to take action, (2) trajectory image which is agenda, expectation, and future objectives, and (3) strategy image

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which is the tactics to achieve trajectory image, including the predicted result.

Compatibility of those images (so-called image compatibility) in decision making is crucial, especially when individuals make adoption (initial) decision and progress decision (Beach & Mitchell, 1987; Beach, 1990; 1996; 1997; 1998, Richmond, Bissell & Beach, 1998). Adoption or initial decision making is related to why a decision needs to be taken, what its objectives are and how to do it. It includes screening mechanism and strategy choice. In screening mechanism, each option of decision is evaluated. If it violates some thresholds of value and/or trajectory image, it will be rejected, and otherwise it will be a survivor (candidate for strategy image). When there is more than one survivor, the most profitable one will be chosen (strategy choice). Thus, compatibility image in adoption or initial decision contributes to select the rejection options (Beach, 1998).

In progress decision making, chosen strategy (initial strategy image) is evaluated to ensure that the objectives are achieved. This evaluation employs what Image Theory refers to as a compatibility test (Mitchell & Beach, 1990). The compatibility test is a subjective evaluation of progress toward future objectives (trajectory image) based on perceptions of the success or failure of current plans and tactics in strategy image (Dunegan, 1995). Result of that test is noted as low or high image compatibility. Yet, the studies on Image Theory are mostly focused on initial decision and hence the use of such a theory in progress decision making is still lacking (Dunegan, 1995). Consequently, the dynamics of decision making may be overlooked.

Richmond et al. (1998) further argued that low image compatibility may be generated from the difference between the current condition and the expected condition (trajectory image). When image compatibility is low, progress decision making may result in different decision from the initial (previous adoption) one (Beach, 1993b). On the other hand, if image compatibility is high, adoption decision will stay (adoption decision is the same as progress decision). Referring to Brockner (1992) and Staw (1976), this unchanged decision may indicate the existence of escalation commitment. Yet, the connection between image compatibility (and whether adoption decision stays or not) and escalation of commitment has not been empirically explored.

Previous research has associated escalation of commitment to negative outcomes (Garland, 1990; Ross & Staw, 1986; 1993; Teger, 1980). Bowen (1987) and Brockner (1992) further argued that such a commitment might be caused by psychological (i.e. self-justification) and/or rational (i.e. economy, learning process and part of a whole strategy) factors. According to Desai and Chulkov (2009), psychological factors may lead to irrational escalation of commitment, while rational factors may lead to rational escalation of commitment.

Desai and Chulkov (2009) indicated that irrational escalation of commitment might not generate value-added for both the organization and the decision makers as did rational escalation of commitment. Therefore, in an irrational situation, it is better to de-escalate than to continue (escalate). As previously discussed, escalation of commitment happens when the image is compatible, and that escalation is the rational, not the irrational, one. In other words, image compatibility may lead to a value-added escalation of commitment (that is the decision to escalate that brings value-added).

Such a possible connection may extend Image Theory in a sense that the theory could now be the basis for predicting the performance of a decision (performance prediction model of decision making), in addition to the basis for selecting a decision or strategy (strategy selection model of decision making) (Beach, 1998).

Accordingly, this study aims to examine (1) the connection between image compatibility and escalation of commitment, (2) the extent to which image compatibility affects the performance of a decision. The context for this study is progress decision making in two different frames: positive and negative. The argument for employing such a context is to depict the dynamics of (progress) decision making. As we may be aware, the image formed by the decision makers is subject to how they perceive the frame they are in (Kahneman & Tversky, 1979;
Figure 1. Conceptual Model

Tversky & Kahneman, 1974). Different frames may result in different image. The more extreme the frame, the more we can examine the dynamics of decision making. The following is the elaboration of the above research objectives in the conceptual model and hypotheses.

**Literature Review**

The conceptual model for this study can be seen in Figure 1. Dunegan (1995) argued that the perception of an individual on the information provided was more dominant in explaining the individual’s behavior than the objective content of such information. This means that negative information (negative frame) may not always be perceived negatively by the individual. Correspondingly, negative frame may not always lead to low image compatibility.

As a consequence, the individual with high compatibility image may continue the initial decision (escalate his or her commitment on such a decision), while the individual with low image compatibility may change or revise the initial decision (de-escalation of commitment) because such a decision is presumed unable to achieve the initial decision objectives. On the other hand, previous studies on escalation of commitment demonstrate that escalation tends to occur in negative frame (e.g. Brockner, 1992; Staw, 1976). Hence, in negative frame, there may be no clear connection between image compatibility and escalation of commitment.

However, the individual may react favorably when he or she encounters positive information. Bazerman and Moore (2009) argued that the individual might accept uncritically any positive information because it might be hard for the individual to deny such information as the denial might ruin his or her self-esteem and personal contentment. In decision making literature, this is known as positive illusion (Bazerman & Moore, 2009). Silver and Mitchell (1990) further argued that, in positive circumstances, the individual tended to maintain status quo. Correspondingly, positive frame may always lead to high image compatibility (Dunegan, 1995), which means the initial decision will stay (escalation of commitment will occur). Unfortunately, no previous studies have yet examined the relationship between image compatibility and escalation of commitment and the existence of escalation of commitment in positive frame. Thus, we may conclude that

H1: In a positive frame, image compatibility will be positively related to escalation of commitment.

As discussed earlier, escalation of commitment may occur in negative frame and previous studies show that such an escalation is associated with negative result. Garland (1990), for example, described escalation of commitment as throwing good money after bad. Expo 86 (Ross & Staw, 1986) and Shoreham Nuclear Power Plant (Ross & Staw, 1993) cases indicated that escalation of commitment led to permanent failure.

On the contrary, in positive frame, the decision makers are presented with positive information (better performance, supportive work environment, etc.). To maintain the status quo (Silver & Mitchell, 1990), the decision
makers may continue the decision (escalation of commitment) that has so far brought positive results. This escalation is taken with the expectation of better results in the future and such a positive expectation may encourage the decision makers to take supportive actions. Therefore, we hypothesize that:

H2a: In a negative frame, escalation of commitment will be negatively related to decision performance.
H2b: In a positive frame, escalation of commitment will be positively related to decision performance.

In addition to hypotheses above, this study will examine the direct connection between image compatibility and performance due to the fact that image compatibility may be generated from the difference between the current condition and the expected condition (trajectory image). Trajectory image is actually the decision objectives. If the compatibility is high, the likelihood the objectives will be achieved is relatively high and consequently, the result (performance) may likely be high as well. Hence, we may conclude that

H3: In both positive and negative frames, image compatibility will be positively related to decision performance.

Research Method

Data Collection

The main data for this study is collected via questionnaire. This questionnaire is distributed from February to April 2010 to 800 individual investors in IDX. Selected investors are those with a minimum portfolio of Rp80 million (approximately U$8,000, which is the average investment in IDX for individual investors) and have at least two years of investment experience in IDX. Of 800 questionnaires, 262 were returned but only 229 were usable and analyzed for this study. All 229 respondents then answered the questions both for negative and positive frames. Additionally, we conducted a post-survey focus group discussion (FGD) involving some respondents of this study to gain insight on the results from the questionnaire.

Questionnaire

The questionnaire is a six-scale Likert type and has two main parts reflecting positive and negative frames. Based on the movement of IDX index and volume of transactions, we determined that the observation period for negative frame (bearish) is from January 2008 to February 2009 and for positive frame (bullish) is from March 2009 to February 2010. This framing is due to the fact that starting March 2009, both IDX index and volume of transaction increased steadily (see Figure 2). The questionnaire is in Indonesian language. We translated the questionnaire from English language then conducted a reading test involving a group of investors who have good English to ensure that the translation is appropriate and understood. Consequently, we had to make some wording modifications so the questionnaire is applicable in the investment world.

Variables

Image compatibility was measured using procedure developed by Dunegan (1995) and Dunegan et al. (1995), that is, the perception of each participated investor with regard to (1) how close investor’s current portfolio performance to trajectory image (image closeness), (2) the extent to which investor’s current portfolio performance moves toward trajectory image (movement toward target), (3) the possibility of investor’s current portfolio performance achieves the target (likelihood), and (4) the extent to which investor’s current portfolio performance is within his or her risk tolerance. Escalation of commitment was measured using a questionnaire developed based on Brockner (1992) and Staw (1976). The escalation was indicated by the extent to which the investor retained his or her portfolio during the observation period regardless of gain or loss each stock had made. Performance was measured using questionnaire developed by
Lewellen, Lease, and Schlarbaum (1977). The performance was indicated by percentage of realized and unrealized, both for gain and loss. The measurement of each variable is shown in the Appendix.

Data Analysis

Data collected from the survey were then analyzed using analysis of variance (ANOVA) and structural equation modeling (SEM). ANOVA was used to analyze the mean differences of each variable between frames (bearish vs. bullish). The significant mean difference indicates the effect of the frame on the variables (image compatibility, escalation of commitment and performance). SEM was employed to test the hypotheses and the model.

Result and Discussion

Data Analysis

Demographically, of 229 respondents, 79.9 percent were men and 53.2 percent were 35-54 years old. In addition, 52.8 percent respondents were employees and 49.8 percent had only 2-3 years of investment experience. Majority of these respondents (58.5 percent) managed a total portfolio from U$8,000 to U$24,900 and majority of them (56.8 percent) conducted transactions of less than U$8,000 per month.

Table 1 shows ANOVA results that demonstrates the effect of frame on image compatibility (IC), escalation of commitment (EC) and performance (PF). Such results may point to the superiority of bullish over bearish. In bullish period, image compatibility, escalation of commitment and performance may be higher compared to in bearish period. The findings regarding image compatibility and performance may be expected considering that in a bullish stock market, the expectation is either exceeded, met, or not far from the current condition, and the performance is encouraging.

Interestingly, escalation of commitment may be higher in bullish period than in bearish period (3.93 vs. 3.72), which indicates that during bullish period, investors maintain their portfolio and even extend the time (holding period) and/or increase its amount. It also means that in negative frame, investors tend to
change their strategy (portfolio composition) as a form of adjustment to the reality.

From FGD involving individual investors who participated in this study, we know that such investors want to reap more profits during bullish period by holding longer or even buying more good performance stocks in their portfolio. This may explain why image compatibility, escalation of commitment and performance is higher in positive frame than in negative frame, as well as well demonstrate the dominance of short-term investors (day-traders) in IDX.

Concerning the hypothesis testing, Table 2 shows t-values of relationship between variables in bearish and bullish periods. The first relationship is between image compatibility and escalation of commitment. The relationship is significant and positive (t-value = 2.66) only in positive (bullish) frame. This finding supports H1. However, none of the relationship is significant between escalation of commitment and performance (t-values = -0.49 and 0.70) which do not support H2a and H2b although the direction of the relationship is consistent with such hypotheses. These findings may be due to extreme conditions in IDX. During bearish period (February-November 2008), for example, IDX index decreased 54.5 percent and there were six sequential decreases from June to November 2008.

The conditions were so extreme that it might have created a dilemma that split the investors. One part of them may maintain the initial decision (escalation of commitment) as suggested by the literature partly because they still believe that this extreme condition is only a glitch before the performance picks up again, but the other part may decide to change strategy (de-escalation of commitment) to avoid further losses (the losses are too much that they can no longer afford it).

Similarly, in bullish period, particularly from March to September 2009, IDX index increased in seven months in a row. Referring to Silver and Mitchell (1990) in positive circumstances, decision makers may like to maintain status quo (escalation of commitment). Yet again, an extreme positive frame may create a dilemma: one part of the decision makers may decide to stay put because they may not want to risk the sure performance they have had already in hand, but the other part may decide to change strategy (de-escalation of commitment) to take advantage of the situation to accelerate performance. All in all, the extreme positive or negative frame may split the decision makers to either escalate (continue) or de-escalate (change) their initial decision to maintain or improve the decision performance. Such a split may make the relationship between escalation of commitment and performance incomprehensible.

To further support the finding in bullish period, we performed an additional test by splitting the respondents into high and low escalation of commitment based on z-score (positive z-score for high escalation of commitment and negative z-score for low escalation of commitment) and then we run the model for both groups. We did not however perform such a test for bearish period because no relationship between image compatibility and escalation of commitment is suggested by the literature and as shown in Table 2.

### Table 2. t-values of Relationship between Variables in Bearish and Bullish Periods

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Bearish</th>
<th>Bullish</th>
</tr>
</thead>
<tbody>
<tr>
<td>IC → EC</td>
<td>0.23</td>
<td>2.66*</td>
</tr>
<tr>
<td>EC → PF</td>
<td>-0.49</td>
<td>0.70</td>
</tr>
<tr>
<td>IC → PF</td>
<td>5.43*</td>
<td>5.31*</td>
</tr>
</tbody>
</table>

*p < 0.05

### Table 3. t-values of Relationship between Variables in Bullish Period with Splitted Escalation of Commitment

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Low EC</th>
<th>High EC</th>
</tr>
</thead>
<tbody>
<tr>
<td>IC → EC</td>
<td>-3.27*</td>
<td>3.09*</td>
</tr>
<tr>
<td>EC → PF</td>
<td>-1.98*</td>
<td>2.46*</td>
</tr>
</tbody>
</table>

*p < 0.05
Moreover, Table 3 demonstrates that in positive frame, both high and low escalation of commitment could lead to high performance with image compatibility as the trigger. Nonetheless, image compatibility ought to be high in either case to generate escalation of commitment which leads to high performance (see Figure 3). This finding is therefore consistent with Bazerman and Moore’s (2009) positive illusion in which the decision makers are likely to respond favorably (i.e. form a high image compatibility) to positive information.

Going back to the overall model, with regard to the relationship between image compatibility and performance, our findings support H3 for both bearish and bullish (t-values = 5.43 and 5.31, respectively).

Discussion

From this empirical study, we found that image compatibility may affect escalation of commitment (whether or not to continue an initial decision), as well as decision performance (see Table 2). This finding may extend Image Theory from the the basis for selecting or determining a strategy (decision) to the basis for predicting (decision) performance.

However, the effect of image compatibility may have on escalation of commitment may only be in a positive frame (bullish period). This finding supports Bazerman and Moore’s (2009) theory of positive illusion in which an individual tends to maintain status quo because he or she simply cannot find a reason not to continue his or her initial decision. This finding is also consistent with Kahneman and Tversky’s (1979) Prospect Theory that in a gain (positive) frame, an individual prefers certainty and avoids risks. As Sitkin and Pablo (1992) and Sitkin and Weingart (1995) argued and referring to our FGD, continuing an initial decision (maintaining status quo) is perceived as more certain and less risky than changing decision in terms of protecting the present performance. That is to say, in a gain frame, changing decision may risk the continuation of the current success.

Additionally, the existence of an escalation of commitment only in a positive frame supports Desai and Chulkov’s (2009) notion that escalation of commitment should be taken if it brings value-added to the individual and/or to the organization (rational escalation of commitment). Hence, the finding of this study enriches the literature on escalation of commitment that has so far emphasized more on psychological factors, such as self-justification and norm consistency, than on objective factors. Accordingly, escalation of commitment cannot be limited to an act to maintain the existing but failed decision (Brockner, 1992; Staw, 1976); it needs to be broadened to include such an act that leads to successful results.

The afore-mentioned value-added is reflected in the decision maker’s high image compatibility in which he or she perceives the current situation where he or she is in (i.e. positive frame) is in accordance to his or her ex-

Figure 3. Escalation of Commitment as a Mediator of the Relationship between Image Compatibility and Performance in Bullish Period
pectation (i.e. brings value-added). Thus, even though image compatibility is argued as subjective and psychological and sociological-based (Dunegan, 1995), it has rationality perspective in it. In other words, an individual generates an image compatibility not simply emotionally yet also based on reality.

Finally, this study found that there is no relationship between escalation of commitment and decision performance, both in negative or positive frame. One reason is that this study investigated decision maker behavior within the transitional and extreme condition. It is different with previous studies of escalation of commitment which employed stable condition as their background. Within uprise positive frame, for example, the result is significantly positive (most of stock prices rise continuously and sharply), whether the escalation of commitment occur or not. It also happens in the opposite direction within declining negative frame. As a result, decision performance is difficult to be predicted by escalation of commitment within this condition.

Limitations and Future Research

This study experiences several limitations that warrant future research. The first limitation is related to our frame of thought in developing the model. As seen in Figure 1, we developed our model in such a way that image compatibility preceded escalation of commitment, when in reality it is possible that the two are reciprocal over time, i.e. the present escalation of commitment may lead to the future image compatibility, which compares the current condition (the result of such an escalation) to the expected one. If the result is favorable (close to the expectation), the compatibility may be high and vice versa. We cannot demonstrate that contention using cross-sectional data and therefore encourage a future longitudinal examination to better comprehend the dynamics of the relationship between image compatibility and escalation of commitment.

We also developed the model assuming that image compatibility was the origin of the decision performance, yet theoretically image compatibility are formed based on three different images (Beach & Mitchell, 1987): value, trajectory, and strategy. Therefore, a future research should extend our model by examining such images as determinants of image compatibility. In addition, any decision making may always entail risks. Sitkin and Pablo (1992), Sitkin and Weingart (1995), and Tversky and Kahneman (1992) further argued that risks had played a significant role in decision making. Consequently, risks as perceived by the decision makers or risk propensity of the decision makers (Sitkin & Weingart, 1995) is equally justifiable to be included in the extended model for future research.

The last limitation concerns with the frames employed in this study: crisis (bearish) and post crisis (bullish), yet the data were collected in bullish period. In other words, the data in bearish period are perceived by the respondents during bullish period. Because the circumstance in which the data had been taken was positive, such perception might experience a positive biased one. We therefore encourage a future longitudinal study that still involves positive and negative frames but the data for positive frame are gathered during favorable period and the data for negative frame are gathered during unfavorable period. We however also encourage a future longitudinal study in stable environments (involving two positive frames or two negative frames).

Conclusion

Image Theory was developed as descriptive decision making model (Beach, 1993a; Beach et al., 1996; Dunegan, 1995) that comprehensively explains how an individual selects a decision among available alternative decisions (Beach, 1993b). This study suggests that such a theory could potentially be extended to predict the performance of the selected decision. One important element of Image Theory is image compatibility. This study also suggests that in a positive frame, image compatibility may positively affect escalation of commitment.
References


Appendix

Items to measure image compatibility (both frames) [scale: 1 = very far; 6 = very close].
- How close is the portfolio I manage to my investment goal?
- How close is the portfolio I manage growing toward my expectation?
- How close is the portfolio I manage to my expectation within my investment period?
- How close is the portfolio I manage to my risk profile?

Items to measure escalation of commitment (both frames) [scale: 1 = >=90%; 2 = 70%-89%; 3 = 50%-69%; 4 = 30%-49%; 5 = 10%-29%; 6 = <10%].
- Percentage of existing stocks I retain.
- Percentage of existing stocks that I reduce the number of lots.
- Percentage of existing stocks that I increase the number of lots.
- Percentage of existing stocks that I sell at a loss.
- Percentage of existing stocks at a loss (for bearish) or at a gain (for bullish) that I keep.
- Percentage of existing stocks that I extend the investment period.

Items to measure decision performance (for bearish and bullish).
- Average percentage of gain that has been realized.
- Average percentage of gain that has not been realized yet. [scale: 1 = <5%; 2 = 5%-9.9%; 3 = 10%-14.9%; 4 = 15%-19.9%; 5 = 20%-24.9%; 6 = <=25%].
- Average percentage of dividend yields. [scale: 1 = 0%; 2 = 0.1%-0.9%; 3 = 1%-1.9%; 4 = 2%-2.9%; 5 = 3%-3.9%; 6 = <=4%].

Percentage of total realized dan unrealized loss. [scale: 1 = <=45%; 2 = 35%-44.9%; 3 = 25%-34.9%; 4 = 15%-24.9%; 5 = 5%-14.9%; 6 = <=5%].
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Journals:

Three or More Authors:

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The Management Research Center (MRC) laboratory was created in March 2006 due to the particular reason of relative weakness on management research in Indonesia. MRC is a national research center dedicated to contribute the theoretical, empirical, and practical research in recent management issues.

The intention is not only to stimulate research and discussion within scholarly circles, but also to enhance business community and public awareness to stimulate thinking on and exploring solutions in management issues.

The MRC is placed to assist local, regional and international scholar and other researcher that provides a congenial and stimulating intellectual environment, encouraging the fullest interaction and exchange ideas.

To achieve these aims, the MRC conducts a range of research programs; holds public lecturers, seminars, workshops, and conferences; publishes research journals and books, support research facilities, including data, financial subsidy and library collections.

Research

Research within MRC covers the fields of interest in:
- Business Policy & Strategy
- Entrepreneurship
- Finance and Banking
- Gender and Diversity in Organizations
- International Management
- Management Education & Development
- Operations Management
- Organization Development & Change
- Organization & Management Theory
- Organizational Behavior
- Research Methods in Management
- Social Issues in Management
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MRC has a program of public lecturers, seminars, workshops, and conferences, organized independently or in collaboration with other research organization and also with private sectors. The scope of these ranges activities from informal discussion group to major international events.

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To facilitate timely dissemination of research and commentaries on recent and current developments, MRC produce monographs under the Working Paper Series.

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The MRC library collaborates with the Graduate School of Management, Faculty of Economics, University of Indonesia. This library has many excellent collections of management studies in Bahasa Indonesia and English, in print and multimedia formats.

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