THE INFLUENCE OF ADVERSE SELECTION AND NEGATIVE FRAMING ON ESCALATION OF COMMITMENT IN PROJECT EVALUATION DECISIONS

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ABSTRACT

The study aims at identifying factors influencing manager to continue a failing project (escalation of commitment) on project evaluation decisions based on agency and prospect theory explanation. The study hypothesized that: (1) managers experiencing adverse selection condition, (2) managers experiencing negative framing condition, and (3) managers experiencing both adverse selection and negative framing conditions will exhibit a greater tendency to continue a poorly performing project.

A laboratory experiment with 2 x 2 factorial design is conducted. Sixty-eight Executive MM and MAKSI Weekend students—as the proxy of project managers—participated in the experiment. Each subjects is presented randomly (random assignment) with one case out of four versions available. Two-way ANOVA is used in hypotheses testing.

Results indicate that the influence of adverse selection, negative framing, also both adverse selection and negative framing condition on managers’ project evaluation decisions is not statistically significant (F1=0.221, p1= 0.640, F2=0.439, p2=0.510, F3=0.350, p3=0.556). Manipulation check responses show that the experiment’s treatments is not successfully applied to most of subjects (69.81%). Therefore, subjects fail to make a project evaluation decision based on the context described in each version of cases. It is proposed that the absent of explicit instruction for subjects to read the cases several times before making a decision responsible for this result. This results should be followed up by continuing study of factors influencing project evaluation decisions based on agency and prospect theory explanation.

Keywords: adverse selection, negative framing, escalation of commitment, project evaluation decisions
I. INTRODUCTION

Resources allocation decision is one of the important decisions in organization because of it’s long-term nature. It involves a large fund without a precise actual result known along with the long-term effect for the organization (Horngren et al., 2002). In order to obtain an optimal outcome, organization needs a long-term planning system to analyze and control such investments.

Management accounting textbooks discuss methods available for analyzing long-term investments proposals, known as capital budgeting. The term represents a budgeting process for capital assets acquisition—asset to be used for long-term purpose. Horngren et al. (2002) define capital budgeting as a decision process involving a long-term investment proposals. Approaches available for manager for analyzing investments project proposals such as discounted-cash flow, payback period, and accounting rate-of-return (Horngren et al., 2002). This approaches help manager to compare the cash outflows and cash inflows of a certain proposal. Rationally, manager will make a informed decision by approving a project with cash inflows larger than the cash outflows.

The same approaches relevant for projects evaluation decision. If accounting information indicate a poorly performing project, it is rational for the manager to abandon the project and redirect the fund to the next best investment alternative. However, a significant body of researches indicate that managers often continue a project that logically should be discontinued to prevent subsequent loss to their firm (see Staw, 1981). The phenomenon is called escalation of commitment. Escalation of commitment will cause a huge loss for organization, compare to decision to discontinue a project as soon as the bad prospect known. It can, even, cause bankruptcy for the organization.

Agency theory offered an explanation of escalation of commitment by predicting that the availability of incentive and information influence the managers decisions. Assuming a conflicting interest between managers (agent) and owners (principal), agency theory predicts that, in the existence of incentive to shirk and information asymmetry, managers will try to maximize their self interest rather than owner’s
(Kanodia 1989). Several studies provide evidence that support this explanation (i.e. Harrison and Harrel, 1993; also Harrel and Harrison, 1994)

Differ with agency theory, prospect theory predict that the way the decision is described or framed influences the managers choices. This effect is arise as people overweight outcome that is certain than outcome that only probable. When outcome is describe as a sure loss (negative framing), managers tend to take risk in order to avoid the sure loss than when the identical outcome is describe as gain (positive framing). Studies such as Rutledge and Harrel (1994) and Rutledge (1995) provide supports for prospect theory explanation.

There are studies examining both agency and prospect theory explanations. Sharp and Salter (1997) find that adverse selection and negative framing have no significant effect on escalation commitment tendency. While, Salter et al. (2004) find the opposite result, that framing have a negative effect on adverse selection.

The objective of this study is to provide empirical evidences concerning the explanation of agency and prospect theory of escalation of commitment. Accordingly, this paper examines the potential influence of adverse selection and negative framing conditions on managers project evaluation decisions. Specifically, an interaction effect is proposed whereby both adverse selection and negative framing conditions affect the decision to continue a failing project.

The remainder of the paper is organized as follows. Section II explains theoretical review underlies the hypothetical derivation. Section III describes the research methodology. Section IV discusses the results of hypotheses testing. Finally, summary will be presented in section V.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Escalation of Commitment on Project Evaluation Decisions

Kanodia et al. (1989, p. 59) illustrate a paradox in human behavior as follows:

* A department manager makes a large investment in new production equipment and, soon after, learns of different equipment that could perform...*
the same operations at lower cost. Incremental analysis favors switching, but the manager refuses saying he does not want to waste the investment already made.

In the example above, the manager as decision maker, after committed to a course of action, then finds out a new information indicating that continuing the earlier commitment most likely will turn out with a negative consequences than if he switch his commitment. Despite knowing the condition, manager still stick and even escalate his earlier commitment, which often require a large additional resources (Kanodia et al., 1989). In this illustration, escalation is interpreted as an evidence that decision maker considering sunk cost in decision making process. This is a subset of a common phenomenon known as sunk cost effect, escalation behavior, and escalation error (Kanodia et al., 1989).

Keil et al. (2000) state that escalation happens when a troubled project is continued rather than abandoned or redirected. Correspondingly, Brockner (1992) argue that, traditionally, escalation is defined as continuing commitment toward a previous course of action, despite of negative feedback about the action’s feasibility.

The earliest study in this topic is done by Staw (1981). Several studies (Rutledge and Harrel, 1994; also Rutledge, 1995) find evidences that managers who initiate the project that become unprofitable are more likely to keep supporting the project than managers who did not initiated them. Brockner (1992) believe that escalation of commitment is a result of several factors and processes. Latest studies examine escalation of commitment based on the explanation offered by the agency theory (Harrison and Harrel, 1993) and prospect theory (Rutledge and Harrel, 1994).

**Adverse Selection**

The main feature of agency theory is the conflict of interests between manager (agent) and owner (principal). Sharp and Salter (1997) argue that manager will pursue his self-interest rather than owner’s (shirk) when two conditions exist:

1. Incentive to shirk, i.e. reward of continuing a project (escalating) for the manager is higher than that for discontinue it.
2. Information asymmetry, exist when agent (manager) own private information not available to the principal (owner).

Agency theory assumes that interests of owners in accordance with the profit maximizing motive of the firm. However, managers’ interests sometimes conflicting with it. When managers’ interests are conflicting with owner’s, managers are said to have an incentive to shirk—managers are motivated to make a decision that inconsistent with owner’s (Harrel and Harrison, 1994).

The level of information availability to agents and owner determine whether managers have the opportunity to make a decision at the expense of owner (Harrel and Harrison, 1994). In the condition of information symmetry, both sides have the same relevant information, owners can monitor managers’ decision thoroughly. This allows owners to ensure that managers’ decisions are congruent with profit maximizing goal of owners. Therefore, managers will not have the opportunity to shirk. Information asymmetry occurs when managers own private information relevant with decisions that is not available for owners. Owners can no longer verify managers’ decision and managers have the opportunity to shirk by making a decision at the contrary to profit maximizing of owners (Harrel and Harrison, 1994). When managers are under conditions of an incentive to shirk and an opportunity to shirk (e.g. private information) the problem of adverse selection can occur. Adverse selection will influence manager to acts in his/her own self-interest and disregard the interests of the firm.

Some studies find results that are consistent with agency theory explanation of escalation. Harrison and Harrel (1993), in laboratory experiment using MBA students in the US as subjects, demonstrate that subjects tend to continue a failing project when they are manipulated to believe that they have a private information about the performance and the decision to abandon the project will negatively affect their reputation and potentially harm their career. The same result found by Harrel and Harrison (1994). Rutledge and Karim (1999), Amilin (2003), and Pratiwi (2005) conducted a laboratory experiment and find result that support the explanation of agency theory and also cognitive moral development theory in project evaluation decisions.
Agency theory offers an explanation of escalation of commitment toward a failing course of action. Agent (manager)—who is risk averse, at the absent of owner’s monitoring will only report good news. He will only report bad news if it really necessary, since bad news will most likely cause him to be fired. If all information available, in the condition of incentive to shirk, agent will not decide to continue a failing project because it will be detected immediately by the principal. At the contrary, if agent held private information (information asymmetry exist), principal can not monitor agent acts thoroughly. In this condition, manager with incentive to shirk will decide to continue a failing project. Condition in which incentive and privately-held information exist is called adverse selection.

Kanodia et al. (1989) posits that escalation behavior can be explained as a part of a bigger phenomenon of hiding a private information. A rational manager will escalate a project if its abandonment will negatively affect their reputation as a competent manager. The abandonment of a failing project will reveal this condition, while escalating it—continuing the project—will successfully protect his reputation (Kanodia et al., 1989). Thus, the first hypothesis is stated as follows:

**H1:** Managers who experience adverse selection condition will exhibit a greater tendency to continue an unprofitable project than managers that do not experience these conditions.

**Negative Framing**

Kahneman dan Tversky (1979) present a critique toward expected utility theory as a descriptive model of decision making under risk and develop a new alternative model called prospect theory. This theory provide a framework to understand cognitive bias influencing human decision making under risk and uncertainty.

Prospect theory argue that people tend to overweight a certain outcome (with certainty) than outcome that only probable, called the certainty effect. This tendency lead to risk aversion in sure gain condition and risk seeking involving sure loss. Moreover, to simplify the choice among alternatives, people often ignore components that common among alternatives and focus on component that differ them, called isolation effect. This tendency lead to inconsistent preference when the identical alternative is presented in different forms (positive or negative framing).
Studies results supporting the prospect theory explanation are follows. Rutledge and Harrel (1994) conduct an experiment with 213 business professionals who join MBA program as participants. They find that negative framing lead to a more risky project evaluation decision, especially in group. Initial responsibility condition also lead to a more risky decision, especially in groups. The study find interaction between initial responsibility and negative framing conditions lead to the most risky decisions, especially in groups. Similarly, Rutledge (1995) in an laboratory experiment examining groups of managers find support for the main effect of initial responsibility and negative framing conditions on groups tendency to continue a failing project. Likewise, Biyanto (1999) and Haryanto (2000) with quasi-experimentation design study find that negative framing condition presented to subjects with the same position lead to a more risky decision in groups than individual.

Prospect theory predicts that individual will exhibit risk seeking behavior in choosing between two negative alternatives, especially when the choices are between a sure loss—loss of the initial investment—and a possibility to suffer a bigger loss combined with a chance to break-even. Prospect theory explained what is called sunk cost effect in which decision makers show a tendency to “throw good money after bad.” Sunk cost is predicted to induce managers to adopt negative framing condition. Thus, encourage risk seeking behavior manifest as escalation of commitment toward a failing course of action (Whyte, 1993 in Keil et al., 2000).

When the outcomes is described as a sure loss (negative farming), managers tend to take a risk to avoid the sure loss than when the outcomes is described as a gain (positive framing). Whyte (1993) in Keil et al. (2000) state that, although in an rational economics perspective, sunk cost should not be relevant with future- oriented decision making, the existence of sunk cost in decision making context can provoke manager to take a risk. This occurs since the existence of sunk cost (which had been spent earlier) in decision making context is equal with framing the decision that doing nothing is identical with accepting the sure loss. While, escalating the commitment is not certain yet, there still a chance of recovering the past loss. Potential of loss recovering, according to prospect theory, is preferable than a sure loss already happened, although
the probability value of the decision to recover the loss (in probability) is less than zero (Whyte, 1993 in Keil et al., 2000). Therefore, the second hypothesis is stated as follows:

H2: Managers who experience negative framing condition will exhibit a greater tendency to continue an unprofitable project than managers that do not experience these conditions.

Interaction of Adverse Selection and Negative Framing

Salter et al. (2004) suggest that one needs to consider that there may be an interaction between the framing of the decision (prospect theory) and the circumstances in which the decision maker finds him/herself (agency theory). It is possible, for example, prospect theory can be viewed as a specification of the agent’s utility function. In this case, the agent who is making the decision is within a framework of information asymmetry based on their own frame. However, as intuitively appealing as this may seem, to date, no study has found clear results for the interaction of framing and agency in an escalation context (Salter et al., 2004).

Sharp and Salter (1997) conducted a quasi-experimentation to MBA program students and find that framing and agency moderate the tendency to escalate but the result is not statistically significant. Whereas, a quasi-experimentation performed by Salter et al. (2004) to MBA students in the US and Mexico find a significant negative interaction between agency and framing, Subjects’ escalation tendency in adverse selection condition is diminished when presented with positively framed information. This is the first result that show the possibility of agency and framing effect is interacted and the former is moderated the latter. Unfortunately, further analysis reveal that this interaction is only produce a significant different on Mexican subjects.

Conditions required by agency theory for escalation to happen is the existence of information asymmetry and incentive to shirk (Harrison and Harrel, 1993). Managers experiencing incentive to shirk condition (incentive to pursue his private interest) and owning private information will prefer to maximize their interests by continuing a unprofitable project since the owner will not able to verify all their actions. If managers in adverse selection condition is presented with negatively-framed information, manager
will be provoked to consider the project continuation decisions offer them a chance to obtain profit in the future to recover the loss of initial investment. Hence, manager experiencing both adverse selection and negative framing conditions will be much more motivated to escalate their commitment.

Accordingly, the third hypothesis predicts the interaction of effect between adverse selection and negative framing conditions, as follows:

**H3:** Managers who experience adverse selection and negative framing conditions will exhibit a greater tendency to continue an unprofitable project than managers that experience only one of these conditions.

### III. RESEARCH METHODOLOGY

A laboratory experiment is conducted to examine whether adverse selection and negative framing has an influence on a manager’s evaluation decision.

**Research Subjects**

Research subjects are 106 Executive MM and MAKSI Weekend students in Yogyakarta—as the proxy of project manager—considering that most of the students are professionals (manager and future manager). Each subject is randomly presented (random assignment) with one of four project-evaluation-decision cases available.

**Research Design and Procedures**

Experiment is manipulated with adverse selection and negative framing conditions using 2 x 2 factorial design. Treatment is applied using between-subject method. Each subject is randomly assigned into one of four treatment condition designed. Subject is presented with one version of cases (of four cases available). Hence, every subject receive one of manipulation combination possibility of adverse selection and negative framing. The experiment design is presented in Table 1.
### Table 1. Experiment Design 2 x 2 Factorial

<table>
<thead>
<tr>
<th>Treatments</th>
<th>Adverse Selection</th>
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<tbody>
<tr>
<td></td>
<td>Not Present</td>
</tr>
<tr>
<td>Negative Framing</td>
<td>Not Present</td>
</tr>
<tr>
<td></td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td>Case 3</td>
</tr>
</tbody>
</table>

Four cases designed are Case 1 (no adverse selection and no negative framing), Case 2 with adverse selection manipulation, Case 3 with negative framing manipulation, and Case 4 with a combination of adverse selection and negative framing manipulation. Subject is also asked to fulfill the background questionnaire. Finally, subjects are debriefed.

**Research Instrument**

This research adopt and modified Rutledge and Harrel (1994) also Rutledge and Karim (1999) instruments. In the experiment task, all subjects are assuming the role of project manager. They are facing a problem that force them to decide to abandon or continue a project they supervised. Subjects choose the project evaluation decisions by indicating their preference using 6-points scale. The lowest point indicating that the project definitely will be stopped and the highest point indicating that it definitely will be continued.

All cases describing that an expenditure of Rp1 billion has already invested in a research and development project no benefits have been gained from it yet. Subjects are asked to decide whether to discontinue the project or to commit another Rp500 million. Subjects are informed that if the additional investment is spent, there is a 1/3 probability that the new product will be developed that can recover Rp1.5 billion investment incurred.

The present of adverse selection condition is manipulated in Case 2 and Case 4 by describing that: (1) information about the project performance is unavailable for others in firm and industry (private information), and (2) decision to discontinue the project will reveal to others in the firm and industry about the project failure. It will damage the managers reputation as a talented manager and will likely cause the competing firm to
withdraw their offer concerning a new job with important position and bigger salary (incentive to shirk).

The present of negative framing condition is manipulated in Case 3 and Case 4 by using words describing loss. Subjects is presented with decision alternatives that describe that project abandonment will cause the incurred loss (sunk cost) is certain and project continuation (escalation) as a chance to avoid the incurred loss.

At the end of each cases, presented with three additional questions as manipulation check to find out the subjects understanding of cases presented. Subjects are asked to chose between true or false response base on the information presented in every case. These three questions is related to adverse selection manipulation used by Harrel dan Harrison (1994).

**Pilot Test**

Pilot test (pre-test) is conducted before the real experiment in order to find out whether the experiment case presented is understandable by the subjects. Pilot test is held on January 12, 2007 at 2 pm in Study Lounge MSi UGM. Fourteen Magister of Science (MSi) UGM students participate as subjects.

The manipulation check responses show that only 3 subjects (21%) who correctly answer the questions (one for Condition 2, one for Condition 3, and one for Condition 4). This reveal the lack of attention given by subjects in pilot test. The informal and relax setting in conducting the pilot test is assumed to be the factors, since all subjects are the classmates of researcher who participate voluntarily. Therefore, subjects only minimally pay attention to the case presented. Besides, the noisy environment at Study Lounge and the exhausted subjects in the afternoon also worsen the condition.

**Hypothesis Testing**

Two-way ANOVA is used to test the hypotheses. Independent variable are: (1) adverse selection (present or not) and (2) negative framing (present or not present). Dependent variable is subject’s preference to continue/discontinue the project.
IV. RESULTS AND DISCUSSION

Experiment is conducted using a part of study/lecture hour with the permission of the lecturer. The lecturer introduce the researcher and ask students to participate in the experiment seriously. It is hoped to motivate students as participants to pay full attention to the experiment task.

All four experiment’s treatment (cells) are applied in each class used. This procedure prohibit researcher to describe every version of treatments orally—besides the written description in the instrument, to ensure subjects’ understanding of the decision context in each case.

Result of Manipulation Check

From total 106 subjects participate, nine (8.5%) subjects are eliminated for incomplete responses. Responses of manipulation check show that 74 (69.81%) subjects incorrectly answer the questions. Therefore, only 23 (21.69%) subjects—7 subjects in Condition 1, six in Condition 2, five in Condition 3, and five in Condition 4—who correctly answer the questions. Mann-Whitney test indicate that subjects project evaluation decision is not significantly different between subjects who correctly answer manipulation check and those who answer incorrectly. While, ANOVA test reveal that the responses for the third manipulation check question is significantly affect the decision ($F = 4.873$ and $p$-value $= 0.030$). Therefore, 29 subjects who incorrectly answered the third manipulation check question is eliminated from samples. Thus, hypothesis test is conducted to 68 subjects responses. While, when the analysis is done only to those who correctly answer the manipulation check and also to all sample available (97 samples), the same qualitative result is obtained.

Characteristics of Samples

A total of 48 male and 20 female participate in the experiment. The mean age was 28.14 years old and the mean job experience was 4.11 years. ANOVA test on demography variables (i.e. gender, age, and job experience) reveal no significant effect on the subjects’ project evaluation decisions ($F_a = 0.551$; $p_a$-value$=0.467$; $F_b=0.708$; $p_b$-value$=0.560$; $F_c=1.947$; and $p_c$-value$=0.068$)
Descriptive Statistics

Table 2 presents the descriptive statistics of the dependent variable in the experiment. In each cell, most subjects exhibit a tendency to continue the failing project. The mean for project evaluation decisions is 4.81. A total of 92.6% of subjects choose to continue the project while only 7.3% choose to abandon them.

Table 2. Descriptive Statistics of Dependent Variable for Every Experiment’s Treatment

<table>
<thead>
<tr>
<th>Treatment</th>
<th>Total of Project Evaluation Decisions</th>
<th>Project Evaluation Decisions</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Discontinue</td>
<td>Continue</td>
</tr>
<tr>
<td>Condition 1</td>
<td>2 (12.5%)</td>
<td>14 (87.5%)</td>
</tr>
<tr>
<td>Condition 2</td>
<td>1 (5.2%)</td>
<td>18 (94.7%)</td>
</tr>
<tr>
<td>Condition 3</td>
<td>1 (5.2%)</td>
<td>18 (94.7%)</td>
</tr>
<tr>
<td>Condition 4</td>
<td>1 (7.1%)</td>
<td>13 (92.9%)</td>
</tr>
<tr>
<td>Total</td>
<td>5 (7.3%)</td>
<td>63 (92.6%)</td>
</tr>
</tbody>
</table>

*standard deviation

Result of Hypothesis Testing

This research uses two-way ANOVA to examine whether there is a mean difference among conditions of the experiment (Huck, 2000). The ANOVA includes the following two factors: (1) adverse selection condition variable with two levels (present and not present), and (2) negative framing condition variable with two levels (present and not present). The dependent variable is each individual’s project evaluation decision/response. The result of ANOVA is presented in Table 3.
Table 3. Result of Hypothesis Testing with Two-Way ANOVA

<table>
<thead>
<tr>
<th>Variable</th>
<th>F</th>
<th>Sig.</th>
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<tbody>
<tr>
<td>Adverse Selection</td>
<td>0.221</td>
<td>0.640</td>
</tr>
<tr>
<td>Negative Framing</td>
<td>0.439</td>
<td>0.510</td>
</tr>
<tr>
<td>Adverse Selection x Negative Framing</td>
<td>0.350</td>
<td>0.556</td>
</tr>
</tbody>
</table>

Hypothesis 1 (H1) predicts that the adverse selection condition will affect a project manager’s evaluation decision. Table 3 indicates that the level of adverse selection condition had not a statistically significant main effect on the manager’s project evaluation (p>0.05) as table 2 indicates, when adverse selection are present, subject’s mean evaluation was 4.58, whereas the mean evaluation for subjects when adverse selection condition were not present was 4.88. This result inconsistent with H1 since project manager had a greater preference for continuing a failing project when condition for adverse selection did not exist than when such condition exist.

Hypothesis 2 (H2) suggest that the negative framing condition will affect a project manager’s evaluation decision. Table 3 indicates that there is not a statistically significant main effect on the managers’ project evaluation (p>0.05) indicates in Table 2, the mean evaluation for subjects when negative framing condition are present is 4.89 and for subjects without negative framing condition is 4.88. This result inconsistent with H2 since project manager preference for continuing an unprofitable project were greater for manager not experiencing negative framing condition than for managers with negative framing condition.

An interaction between adverse selection and negative framing condition is predicted by Hypothesis 3 (H3). As indicated in Table 3, this interaction is not statistically significant (p>0.05). A closer look at Table 2 indicates that when adverse selection are present, subjects’ mean evaluation was 4.93, whereas the mean evaluation for subjects when adverse selection condition were not present were 4.88, 4.58, and 4.89. Thus, this result is inconsistent with H3.
Discussion

This study used a laboratory experiment to examine whether the adverse selection and negative framing influences manager project evaluation decisions. Three research hypotheses were developed and tested. Adverse selection and negative framing conditions were manipulated to test for the main effect on managers project evaluation decisions.

Based on the first hypothesis, the study fail to find a significant main effect for adverse selection condition on managers project evaluation decisions. This result is inconsistent with previous studies that support agency theory explanation (i.e. Harrison and Harrel (1993), Harrel and Harrison (1994), also Rutledge and Karim (1999). The second hypothesis predicted the main effect for negative framing condition on managers project evaluation decisions is also not supported. This finding is in conflict with Rutledge and Harrel (1994) also Rutledge (1995).

Further, in conjunction with the third hypothesis, an interaction predicted between adverse selection and negative framing conditions is not supported. The finding similar with Sharp and Salter (1997), but contrast with Salter et al. (2004) who find the significant interaction between adverse selection and negative framing conditions on Mexican managers project evaluation decisions. They hypothesize that culture explain the findings since the interaction is not found in though not in US subjects.

A closer look at manipulation check responses offer an explanation for these findings. Most of subjects (69.81%) fail to answer manipulation check questions correctly. It shows that the subjects fail to comprehend the case so that the experiment’s treatments is not successfully applied to subjects. Consequently, subjects can not appropriately understand the context in which he/she should based their project evaluation decision. It is assumed that the absent of explicit instruction for the subjects to read the case several times—besides asking them to read it carefully—before making a decision responsible for this result.
V. SUMMARY

The study’s objective is to provide empirical evidence concerning the influence of adverse selection and negative framing condition to manager’s project evaluation decisions. Adverse selection conditions related to individual incentive to pursue their own self interest in decision making at the expense of the company’s interest. Whereas, negative framing concern with cognitive bias experiencing by people when they face identical information presented with different wording (framing).

The study conducted by laboratory experiment with 68 Executive MM and MAKSI Weekend student as subjects. Overall, the results fail to provide supports for the agency and prospect theory explanation of escalation of commitment. Specifically, the study failed to find that adverse selection, negative framing, and interaction effect of both conditions have a statistically significant effect on project evaluation decisions. It is assumed that the research methodology for not explicitly ask the subjects to read the cases several times—besides asking them to read it carefully—before making a decision responsible for this result.

These results should be followed up by continuing study of factors influencing project evaluation decisions based on agency and prospect theory explanation. Especially, further study can examine the explanations of agency and prospect theory in laboratory setting using the same instrument by locating every different cell in different places and/or explicitly informed subjects to read case several times before making their decisions to ensure their understanding of the cases. Study can also use a different instrument to enrich the body of research in this area, or using real project managers as subjects will improve the generalizability of the findings. It also should be considered to test the explanation of other theory on escalation of commitment in project evaluation decisions such as self-justification theory and approach avoidance theory.
VI. REFERENCES


APPENDIX: Instrument

Case 1
(Without Adverse Selection and Without Negative Framing Condition)

Anda adalah manager senior di perusahaan mainan anak-anak terkemuka, Toy’s Fun, dengan reputasi yang sangat bagus. Reputasi ini Anda peroleh setelah dengan sukses menangani berbagai macam proyek selama bertahun-tahun. Oleh karena itu, satu proyek yang tidak menguntungkan tidak akan merusak reputasi Anda yang memang sudah sangat mantap.


Jika Anda memutuskan untuk menghentikan Proyek Kid’s Notebook sekarang, orang lain dalam perusahaan dan industri tempat Anda bekerja akan mengetahui bahwa proyek yang Anda tangani gagal, akan tetapi hal ini tidak akan mempengaruhi/merusak reputasi Anda sebagai manager yang bertangan dingin. Informasi tentang proyek yang merugi ini dipublikasikan oleh perusahaan sehingga diketahui secara luas oleh orang lain dalam perusahaan dan industri tempat anda bekerja.
Proyek yang tidak menguntungkan ini dapat diubah dengan menambahkan investasi sebesar Rp500 juta ke Proyek *Kid's Notebook* (dana tersebut tersedia). Jika Anda menambah investasi Rp500 juta ke Proyek *Kid's Notebook*, maka akan ada dua kemungkinan hasil di masa depan:

1. Perusahaan akan mengembangkan produk senilai Rp1,5 miliar dengan sukses (sehingga memulihkan kos awal Rp1 miliar ditambah Rp500 juta yang diinvestasikan sekarang).
2. Perusahaan akan mengembangkan produk yang gagal (yang telah menghabiskan dana perusahaan sebesar Rp1,5 miliar).

Berdasarkan informasi di atas, Anda memiliki dua pilihan mengenai Proyek *Kid's Notebook*:

A. Menghentikan Proyek *Kid's Notebook* sekarang, yang berarti Anda bisa menghemat Rp500 juta.

B. Melanjutkan Proyek *Kid's Notebook* sekarang, yang berarti ada 1/3 peluang bahwa Anda akan menghemat/memulihkan investasi Rp1,5 miliar, dan ada 2/3 peluang bahwa tidak sepeser pun yang bisa dihemat/dipulihkan.

**KEPUTUSAN:**

Buatlah tanda “X” pada tempat yang paling sesuai pada kolom di bawah ini untuk menunjukkan preferensi Anda untuk pilihan A atau Pilihan B!

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<td>Pasti menghentikan (pilihan A)</td>
<td>Pasti melanjutkan (pilihan B)</td>
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