

Thoughts of Hopes, Opportunities Keep People From Clinging to Failing Investments

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It's a common problem in the business world—throwing good money after bad. People cling to bad investments, hoping that more time, effort, and money will rescue their turkey of a project. A new study published in *Psychological Science*, a journal of the Association for Psychological Science, finds that changing people's mindsets can make them more likely to abandon a failing investment.

"These situations happen all the time," says Assistant Professor Daniel C. Molden, of Northwestern University, who conducted the study with his graduate student Chin Ming Hui. "They happen with businesses; they happen in the Pentagon with weapons systems." The producers of *Spider-Man: Turn off the Dark* are making the most expensive musical of all time, plagued with cost overruns and cast injuries. "If they had at any point objectively reevaluated their position and thought, 'What is the probability that this is going to make money?' they might have just pulled the plug," Molden says. Now the musical will have to be wildly successful to make back the estimated \$65 million that went into its production.

Molden and Hui devised an experiment to find out if they could change how people dealt with the "sunk costs" from their previous investments. Volunteers were first asked to write generally about either their personal duties and obligations or their personal hopes and aspirations. Then they were asked to imagine that they were the president of an aviation company who had committed \$10 million to building a special kind of airplane. But with \$9 million already spent and the project nearly done, another company had announced they had made a better, cheaper plane. They were asked whether they would spend the last \$1 million or cancel the project.

People who had thought about their hopes and aspirations were more likely to say they would abandon the project. On the other hand, people who had written about their duties and obligations felt it was their responsibility to finish the project—thus throwing good money after bad. Molden suggests that this is because people who focus on their own hopes are thinking positively about opportunities for growth, and are therefore more likely to appreciate what else might be accomplished with the remaining \$1 million, whereas people who focus on duties and obligations are feeling anxious and thinking about how abandoning the project would be accepting complete failure.

"At the very least, when things start to go wrong, people should stop and evaluate the costs and benefits of going forward," Molden says. Instead, it seems that people think, "I've already committed so much to this, I can't quit now."

Of course, not everything that appears to be going badly will fail. Buildings, movies, or government programs that run over cost could still be a success in the end. *Spider-Man* could turn out to be the best musical of all time. "Things can work out," says Molden. "The problem is that when people decide to push ahead because of what has already been invested versus some reasonable expectations of what will

happen next, more often than not, they don't.”