

REDUCING WORKPLACE BIAS: SUNK COST FALLACY

SHORT DESCRIPTION

WHAT:

The Sunk Cost fallacy refers to the tendency to keep pursuing a course of action simply because you have already invested in it, regardless of its probability of success.

PROBLEM:

The sunk cost fallacy not only manifests as a waste of resources, like time energy and money, it reflects an inability to adapt effectively, which is one of the keys to success.

SOLUTION:

The lesson and meditation will enable you to see and appreciate the dangers of this fallacy and increase your awareness of the importance of effective adaptation



Sunk cost fallacy is the tendency to keep doing something because you have invested a lot in it already.

This obviously applies in organizational practice where resources, specifically money, have already been invested.

However, it is worth noting that the sunk cost fallacy doesn't just apply to money. For example, one might decide to continue in a toxic relationship simply because you have already invested so many years in it.

Clearly, this fallacy is a dangerous trap that can be used to justify avoiding the harsh reality of change. In some ways the Sunk Cost fallacy is like the "We've always done it this way" philosophy: continuation of the same because it is the same.

The **Sunk Cost Fallacy** also known as the **Irrational Escalation Bias** occurs when people continue to invest in something despite the fact that the evidence shows that the decision to make the investment initially was flawed. It's an example of "we've put this much into it this far so we might as well continue to make it work."

This fallacy doesn't have to be only about financial investments. It could be the investment of time or energy or even commitment, for example, you promoted someone to a new position but they're not working out. How long do you continue with that decision?

One of the problems of the sunk cost fallacy is that typically, to get beyond it you have to admit that the initial judgment was wrong or at least, hasn't worked out the way originally envisioned.

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HERE ARE SOME WAYS OF ADDRESSING THE SUNK COST FALLACY:

1.

Any planned action and operation needs goals. What are your expectations about how this plan of action is going to payoff? You need objective criteria to determine whether the goals have been met.

So, your company spends \$100k to reduce production costs by 5%. Did it work? What were the benefits? If not, why not? Get the data so you can make the best decision moving forward.

2.

A failure to meet goals should always result in a serious consideration of stopping this particular plan. You might modify it or go with a totally different plan. There may be some occasions where mitigating circumstances might justify extending the trial a little longer, but not too much longer.

Be careful. The default setting is to justify the original decision and plan and continue to invest in the plan even though there's no evidence that it's working. In these circumstances ask yourself why would this work when it hasn't been performing well up to now?

3.

One of the key aspects of cognitive bias is a resistance to change. Old assumptions are challenged with advances in knowledge and technology, and the successful people and organizations are those who adapt and realize that old assumptions have outlived their usefulness. There should always be a compelling reason for continuing with a course of action other than, "this is the way we do it."

4.

It is easy when thinking about costs, like money, time and energy, to see them in the context of the particular situation. So, could all that time and energy that has been invested in a questionable relationship be better invested in finding a more suitable partner or even other activities?

5.

Einstein defined insanity as "doing the same thing over and over again and expecting different results." That's a pretty good characterization of the sunk cost fallacy.

6.

Mindfulness and meditation practices of course, also help, by getting you into a less emotional state where you can more likely appreciate the biases that underpin the resistance to change.

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This can apply in many areas of life, like relationships of all sorts as well as military policy and strategy. And on military strategy, the call to continue the conflict on the grounds that “we cannot let those who have died, perish in vain,” is an example of sunk cost reasoning.

This can be a major problem for organizations of all types. It can apply to major strategy or hiring decisions, promotional campaigns or mergers and acquisitions. Nobody likes to admit they have made a mistake and most people will go to all sorts of lengths, even extremes and use other cognitive biases, like confirmation bias, to justify their original decisions. Or they might admit that the initial decision hasn't worked out but seek spurious reasons to explain the events.

Knowing when to pull the plug on the follow-through of a decision is a critical leadership and management skill. In the long term, it is better to admit that the initial decision hasn't panned out as expected for whatever reason and to move on rather than steadfastly sticking to actions that might continue to produce problems.

Sooner or later you are almost certain to have face the consequences of a decision that didn't pan out. It is one thing to make a decision that hasn't worked as planned, and another to continue with it in the face of mounting evidence that it should be abandoned. Under those circumstances there will be two decisions that will have to be defended; the initial decision and the decision to continue.



No matter how far you've gone down the wrong road, turn back.

– Turkish proverb

One of the biases you have to contend with in this situation are other people using the *hindsight bias* and claiming that they knew all along the decision wouldn't work out, even in the face of absolutely no evidence to support that contention.

The key to any problem is to work out the best solution and hopefully avoid getting in to a meaningless but potentially damaging tug of war, with you embracing the sunk cost fallacy and your opponents invoking the hindsight bias.

The fact is that circumstances change and while various cognitive biases can be invoked to make different parties feel better, the only challenge is adapting effectively and rationally to the present circumstances.

Like many of the other cognitive biases, the sunk cost fallacy is often invoked in a complex situation where there are several factors under consideration, or should be. The point is that pursuing something that is not working should never be justified solely on the grounds that all the previous investment in the project can't be allowed to go to waste.

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MEDITATION

It can be hard to discontinue a course of action because it might feel like you are effectively killing or wasting all the resources that have been used in the project thus far. However, we need also to recognize that many times, we learn very valuable lessons from failure.

Education is expensive. You can't expect to reliably predict the future. There will undoubtedly be times when you go with your best and most reasoned decisions and for unexpected reasons, things don't work out.

Adapt and learn but don't persist merely on the grounds of sunk costs.

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Imagine getting lost on a journey. You have driven a long time down this one road but it looks like it's a dead end. What do you do?

"No matter how far you've gone down the wrong road, turn back."

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You may think you have wasted time and fuel, but that is only if you see your journey as part of a particular destination. If you had taken the same road with no expectations of where it would lead you might see the time and the fuel spent as a reasonable part of the experience of traveling down new paths. It your expectations that make you see the use of resources as sunk costs.

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Adaptation is the essence of good leadership.

Great leaders and managers don't need to make excuses.

Great leaders and managers face reality.

Great leaders and managers engage in critical thinking not biased shortcuts.

Great leaders and managers use reason to reach decisions and aren't overly influenced by emotions.

Great leaders and managers understand cognitive biases and don't allow themselves to be influenced by them.

No matter how far they've gone down the wrong road, great leaders and managers are not afraid to turn back.