

The escalation of commitment. An empirical case in Colombia

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Abstract

The objective of this research work is to describe the escalation of commitment, also known as a commitment bias, a phenomenon that is evidenced in the actors who make decisions in organizations, the government, among others. In order to make the behavior of escalation of commitment in the organization visible and to have the possibility of analyzing it in real situations, we designed and implemented an academic case on the actions that can take place in an organization, identifying the most relevant components of the literature that are part of this behavior. Initially, a group of 464 people, with knowledge in administration and finance, were asked about the way in which they visualize the escalation of commitment in the proposed case and the most relevant attitudes associated to it; then, we analyzed which of the components are the ones that most influence the decision making of financial managers; and finally, what actions would be the best to implement with this behavior. The results of this work show that commitment escalation behaviors, as well as organizational behaviors, are more relevant and important for the group of older women than any other group of the population.

Keywords:

Scale of Commitment, Escalation of Commitment, Business Survival, Managerial Commitment, Organizational Decline.

1. Introduction

When decisions are pushed to the limit, crisis is the most likely scenario, just as in the case of Chernobyl (Ross & Staw, 1993). Based on this, the relationship between the risk that is perceived and the level of responsibility generates four types of conditions: 1) the staggering of commitment: characterized by high responsibility along with a low perceived probability of loss, resulting from overconfidence by the decision maker (Ross & Staw, 1993); 2) the erroneous abandonment: characterized by high risk and low responsibility; 3) the escalating indecision: there is little fear of loss and little fear of accountability; and 4) the economically reasonable decision: characterized by high risk combined with high responsibility. This is how decision makers are living the real world (Drummond, 2014) (Figure 1).

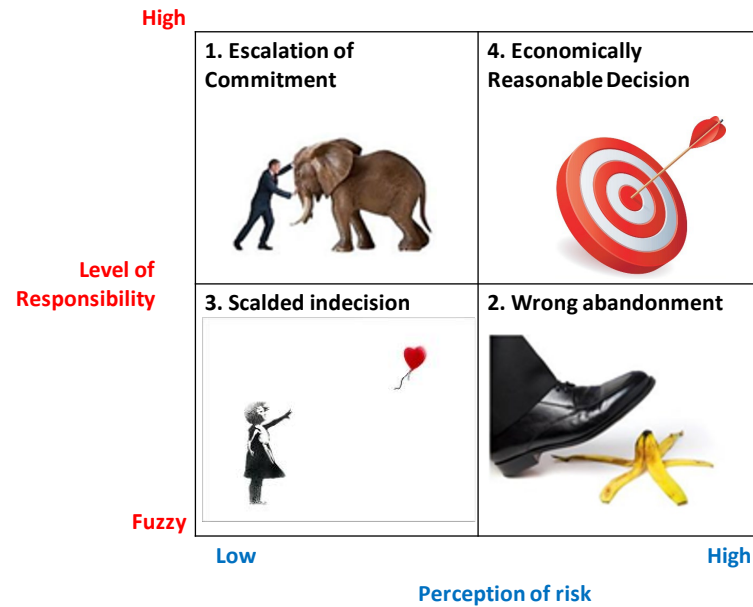


Figure 1. Perceived risk vs. Leel of responsibility

Source. Prepared by the authors based on Drummond (2014).

2. Escalation of commitment

The escalation of commitment refers to those situations in which a person continues to invest time and resources in a failed project, and does so because of what has already been invested in it (Fernández, 2010). When it is estimated that there is a stronger rival, there is a greater probability of spending more resources on the project, on the decision, or on the action (Khoshsoroor *et al.*, 2019). For Staw (2005), the escalation of commitment is a tendency that individuals have to invest more resources in a lost cause, with the aim of justifying the initial poor decision making.

Sleesman, Lennard, McNamara, and Conlon (2018) define the escalation of commitment as the pattern of behavior of a team or group that despite facing increasingly negative outcomes from a decision, action, or investment, it remains firm in the behavior rather than changing the course and turning the situation around. It has been used to explain the tendency of individuals to assume a behavior of greater commitment to an inefficient course of action that goes above the negative points of the viability of that course of action (Chirico *et al.*, 2018).

The decision maker invests more resources even when the project, decision, or action is not being successful, that is, he/she continues to support the course of action of a decision, even if it leads to loss (Staw, 2005).

Organizations often continue to invest time and money in a solution, despite clear evidence that it does not work. Escalating the commitment is the tendency to continue performing inefficient actions even when it is unlikely that the situation can be reversed (Fernández, 2010, p. 275).

The escalation of commitment is generated as a general decision process (Staw, 2005), most of them irrational,

... a rational approach or decision that ended up becoming a personal and irrational commitment of own resources or of the company in a given course of action, in the hope of achieving a final result or victory at the expense of the competitors. The interesting thing about these "escalations of commitment" is that it is very likely that everyone will lose, including customers, sometimes benefited temporarily, but ultimately harmed by the bankruptcy or abandonment of one of the competitors. ..., the dose of subjectivity sweeps the limits of the rationality (Galdos, 2006, p. 1).

Escalations are initially perceived as rational and objective measures. However, as they begin to be counterproductive, the authors continue to justify and support their previous decisions, although it is proven that they were not right or that the assumptions that are used are no longer valid. Interrupting the escalation would be to recognize that they are wrong and that the money invested is a "sunk cost"; that is, unrecoverable (Galdos, 2006, p. 2).

Knowing that the decision is causing losses, the decision maker does not withdraw, invests more to turn the situation around, and stays in it to prove that his decision is valid. Although the escalation of commitment is irrational, it is very common for it to happen in companies due to the acquisition of difficult-to-break commitments, the fear of losing reputation, image, and credibility, and in an attempt to justify a decision or position taken, as the intention is to recover the losses that have been generated so far, and also by the desire to demonstrate competition (Staw, 2005). Figure 2 shows how irrational escalating can be.

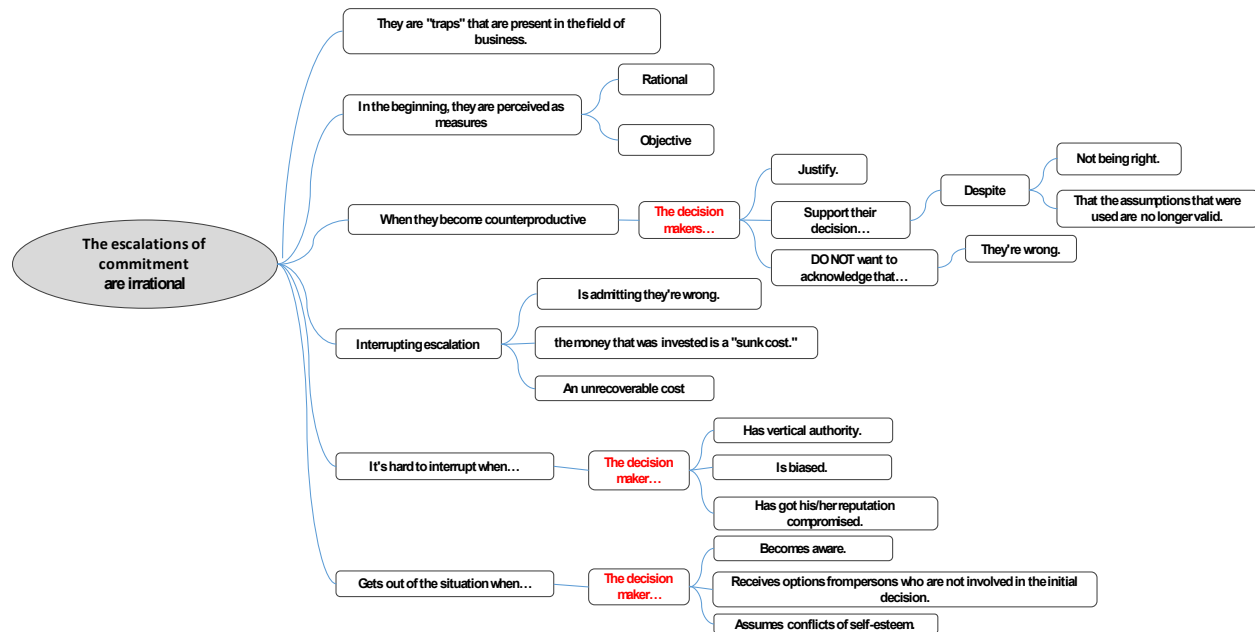


Figure 2. The escalation of commitment as an irrational process

Source. Prepared by the authors based on Galdos (2006, pp. 1–2).

In a business culture that criminalizes mistakes, becoming aware and acknowledging the mistake of an escalation can take an unnecessarily long and expensive time, causing inappropriate projects and products to be maintained over time just to preserve the ego of politicians and managers, despite the fact that citizens, customers, and subordinates realize the mistake and request corrections (Galdos, 2006).

In the culture of leadership, the escalation takes place because it is by holding down the position that it is assumed that the leader is coherent, consistent, and guarantees a perception of success (Staw, 2005).

It is not easy to come out of the escalation of commitment since the decision maker avoids being criticized, degraded, and fired (Staw, 2005). In the same way, if the decision maker has a vertical authority, he/she is biased and compromised in terms of reputation; the leader only comes out of the escalation when he/she becomes aware and receives opinions from people who are not involved in the initial decision, and at the same time, when he/she assumes self-esteem conflicts (Galdos, 2006). If the work team is cohesive, it is difficult for them to warn about failure and for the leader to take into account previous experiences (Khoshsoroor *et al.*, 2019).

Wong and Kwong found in their research that an important factor in the escalation of commitment is the age of decision makers, “older adults are less subject to the sunk-cost fallacy than younger adults” (Wong & Kwong, 2019, p. 852), their findings in different samples suggest that after adolescence there is a decreasing tendency to escalating.

2.1. Causes or determinants of the escalation of commitment

Investment decisions may be determined by behavioral trends rather than by economic calculations of expected value (Staw, 2005). For Drummond and Hodgson (2011) there are four reasons why the escalation of commitment is promoted: 1) personal improvement, that is, the need to feel good; 2) emotional attachment to sunk costs; 3) search for risk, and 4) uncertainty.

The behavioral and economic determinants that influence an escalation of commitment are grouped into four factors: psychological, social, organizational, and contextual (Sleesman *et al.*, 2012). In the course of action or development

of a decision that is made, there is a continuous and permanent flow of commitments (Staw, 2005), not all necessarily directed to economic factors.

The determining psychological factors in escalation refer to the investment that is made by the decision maker in an unsuccessful action because:

- He/she biases the facts and decides to support previous decisions (Fernández, 2010). It is the motivation to justify previous decisions; it is retrospective rationality, which helps to justify his/her behavior (Staw, 2005).
- He/she invests more to recover the losses that have been incurred so far.
- He/she is excessively involved in the project.
- Fear of failure.

Baucells and Weber state: “We like to think that we make reasoned decisions, but there are times, especially in moments of tension, when intuition is imposed. The problem is that psychological biases can deceive us” (Baucells & Weber, 2009, p. 29).

Social factors are pressures that make it difficult to reverse the actions undertaken. The decision makers continue to support their initial decision by the fear of exposing their mistakes to others; they do not admit that the decision was incorrect and, furthermore, they have the conception that the best leaders are those who are consistent with their initial decisions and force not to change the course of action (Fernández, 2010).

The organizational factors are part of the norms of consistency, that are adhered to the cultural and organizational norms of coherence, which are part of holding down the position because of leadership culture (Staw, 2005). In this regard, Fernández expresses that “communication gaps, policies in the workplace, and organizational inertia result in organizations persisting in inappropriate actions” (Fernández, 2010, p. 275). Staw also says that “there are projects or products that are so institutionalized in an organization that they become almost impossible to eliminate” (Staw, 2005, p. 225)

The determining contextual factors in escalation are forces that are beyond the control of the organization. The national culture of the manager influences the degree of escalation. Studies comparing decision-making situations in Mexico and the United States conclude that there is a greater scale of commitment in Mexico than in the United States (Gómez & Sanchez, 2013). These are external factors that are not controlled by the organization, but that exert pressure on the decision maker (Staw, 2005)

The external political factors are also a contextual determinant. Ross and Staw (1993) state that there are large-scale public projects that are under pressure from other public bodies, industry representatives, and government officials for their continuity despite the evidence of the huge losses they are generating.

Some projects generate profits only after a certain period of time, causing the decision maker to be motivated to accept losses at the beginning and to persists in its execution when losses are generated in the hope that the situation will change and will generate profits at some point. When the individual believes that it is possible to change a situation and the project has a high value, he/she shows an enormous commitment to a continuous course of action, thinking that this is the best decision and is the one that must be taken, therefore, the failure is attributed to the lack of resources and the leader believes that its correction can be made by means of the allocation of more resources to change the situation (Fernández, 2010). However, Zhou and Kato (2017) mention that there are situations in which commitment is rewarded with successful results and persistence.

2.2. Model of the Escalation of Commitment

Some organizations are able to exit a course of action without going through so much prolonged pain, when losses in the project come early and are significant, in general, the economic factors are above the behavioral determinants explained above. On the contrary, when the economic results are cloudy or cannot be easily explained and the perspectives worsen in a slow manner, the psychological, social, organizational, and contextual determining factors push over the economic ones, causing the continuity of the course of action, that is to say, the continuity of the decision, enenerating even greater losses (Staw, 2005) (Figure 3).

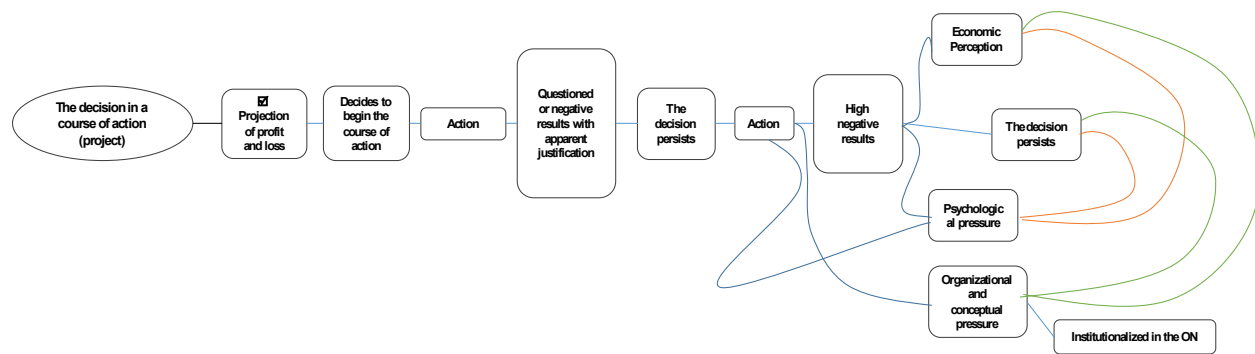


Figure 3. Model of the Escalation of Commitment

Source. Prepared by the authors based on Staw (2005).

2.3. How is the escalation of commitment controlled?

In order to control this conflict in organizations, it is important to share responsibilities and authority in making important decisions, setting limits on commitments to avoid over-influence on subordinates and colleagues, “the culture of fear to making mistakes does not eliminate them, it only makes them hide” (Galdos, 2006, p. 2) (Figure 4).

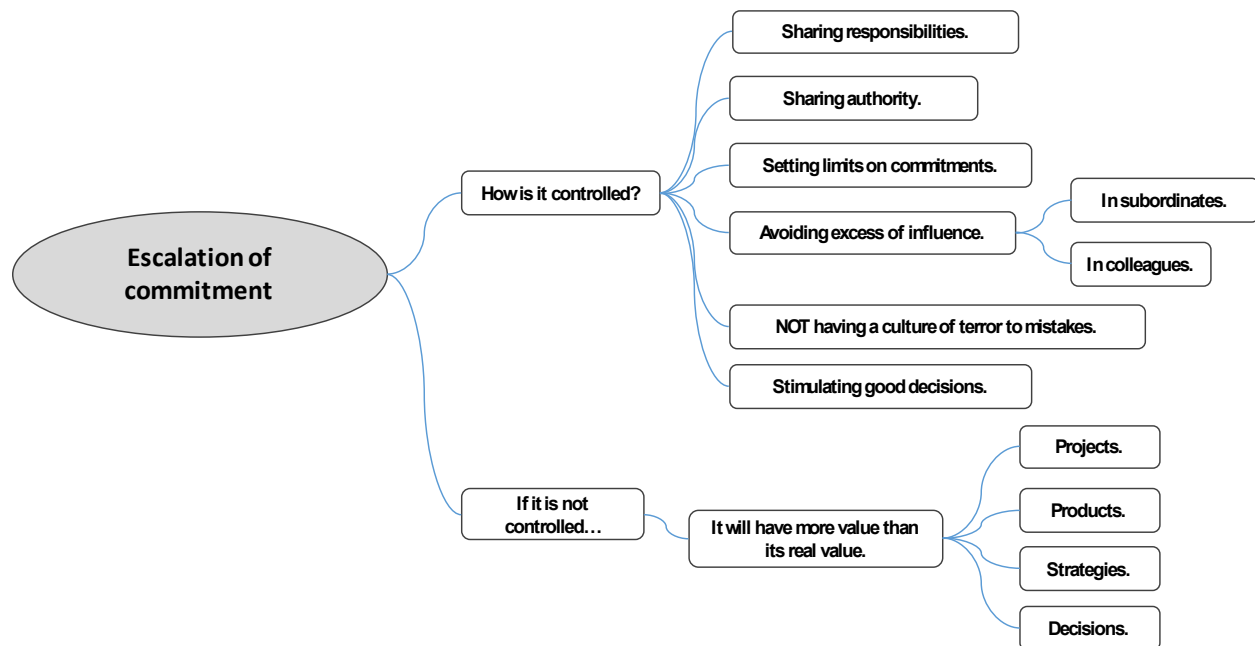


Figure 4. How can the escalation of commitment be controlled?

Source. Prepared by the authors based on Galdos (2006).

There are several ways to reduce the escalation of commitment. According to Ross and Staw (1993) and to the investigations of Drummond and Hodgson (2011) companies can control the escalation if:

- They have units for receiving funds.
- They establish minimum performance objectives and monitor them.
- They have a group of people who make the initial and subsequent decisions of a project.
- They encourage decision makers to be less self-centered.
- They give frequent feedback about the progress and costs of the projects.
- They reduce or eliminate punishment derived from failure.

- They emphasize the fact that the investments that are made in projects that fail, are sunk costs.

Stimulating good decisions is just as important as looking for positive results, because otherwise the project, the product, the strategy, and the decision will have more value than the one it should really have (Galdos, 2006).

3. Methodology

In order to be able to evidence the behaviors of escalation of commitment in the context of an organization, we designed a business case incorporating the most representative psychological, social, organizational, and contextual components of this behavior.

The implementation of the activity was carried out in three phases: first, providing knowledge of the behavior of the escalation of commitment to the participants; then, the developing and implementing the case; and a final phase of discussing about the actions that can be implemented from the financial management in order to prevent that escalation of commitment takes place in the company.

3.1. Characteristics of the sample

The sample is made up of 464 people from the city of Bogotá (Colombia), between the ages of 19 and 67 years, with an average age of 40 years, contacted randomly during the last year, and from which 49.57% are women, and 19% are entrepreneurs.

3.2. Variables

The variables were grouped into the components that are described in the literature for the behavior of the escalation of commitment. For the psychological component, the expressions are described in table 1.

Table 1. Expressions of the psychological component

Psychological Expression	Code
Investing more to recover the loss that has been generated so far	A1
Not wanting to assume self-esteem conflicts	A2
Staying in the company in order to demonstrate that his/her decision is valid.	A3
Not recognizing that he/she was wrong.	A4
Motivating oneself to finish the project, no matter what it takes.	A5
Not recognizing that the money that has been invested is a sunk costs.	A6

Source. Prepared by the authors based on Staw (2005, 1981, 1976); Ross and Staw (1993).

The social component is investigated with the expressions in table 2.

Table 2. Expressions of the social component

Social Expression	Code
Social pressure that does not facilitate admitting his/her mistakes.	B1
Not exposing his/her mistakes to others.	B2
Looking consistent and coherent.	B3
The desire to justify his/her position.	B4
Demonstrating competitiveness.	B5
Tradition and good name.	B6

Source. Prepared by the authors based on Staw (2005, 1981, 1976); Ross and Staw (1993).

The expressions that investigate the organizational component are stated in table 3.

Table 3. Expressions of the organizational component

Organizational Expression	Code
Communication gaps that do not allow complete information.	C1
Worker support policies.	C2
Organizational inertia - slowness in changing a decision due to formalities.	C3
Acquisition of difficult-to-break commitments.	C4
Fear of losing reputation, image, and credibility.	C5
The project is so institutionalized that it is almost impossible to eliminate.	C6

Source. Prepared by the authors based on Staw (2005, 1981, 1976); Ross and Staw (1993).

And finally, the context component was investigated with the expressions in table 4:

Table 4. Expressions of the context component

Context Expression	Code
National culture against business thinking.	D1
External political factors (contribution to social development - taxes).	D2
Pressure from public bodies, unions, and sectors.	D3
Pressure from the community and customers.	D4
Pressure from suppliers and strategic allies.	D5
Pressure from the investors in order to keep the company active.	D6

Source. Prepared by the authors based on Staw (2005, 1981, 1976); Ross and Staw (1993).

3.3. Statistical treatment of the data

Based on the rating that each participant gave to the expressions in the activity, they were discriminated as very important (position 6, 5, or 4) or as unimportant (position 3, 2, and 1). A first analysis focused on the expressions that people identified as the most important for each component. In the second instance, the four components were analyzed, comparing the influence of the components in the case against the experience in business life. And as a final activity, the same group of people were asked about the actions that should be implemented in order to prevent the escalation of commitment from occurring within the organization. The actions were established from the theory, the valuation method was by means of a rating from 1 to 5, where 1 is not very useful and 5 is the most useful.

4. Analysis and results

When analyzing the database that was generated in the activity, it is initially evident that not all aspects are equally qualified as important. For the psychological component, the group of people that was analyzed gave the level of importance to the expressions A2 and A5; the first one related to self-esteem 65% importance and the second one to motivation 55% importance (Figure 5).

In the social component, the expressions that were classified as important were B4 and B1, the first one "desire to justify his/her position", with a 67% importance and the second one "social pressure that does not facilitate admitting his/her mistakes". For the organizational component, the expressions C2 "worker support policies" with 71% and C6 "the project is so institutionalized that it is almost impossible to eliminate" with 61%, are the most representative expressions that are evident for this component in a case of escalation of commitment (Figure 5).

Finally, for the contextual component, the data show that the expression D5 “Pressure from suppliers and strategic allies” with 73% and D6 “Pressure from the investors in order to keep the company active” with 69% are the most important in this behavior (Figure 5).

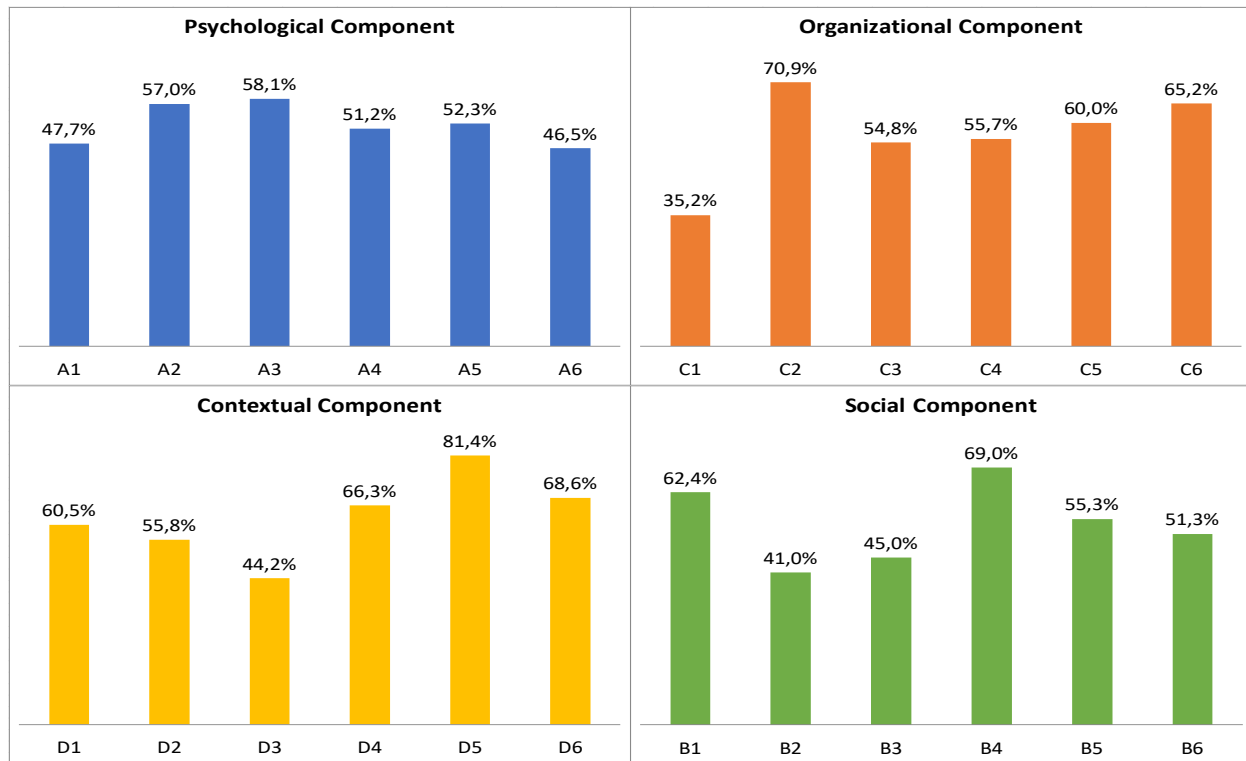


Figure 5. Importance given to the components of escalation of commitment

Source. Prepared by the authors.

In the second analysis to know the perception of the components of the escalation of commitment that were observed in the case study and the experiences they have had in front of this behavior, it is concluded that, with the exception of the contextual component, the other behaviors are easily perceived in reality (Figure 6).

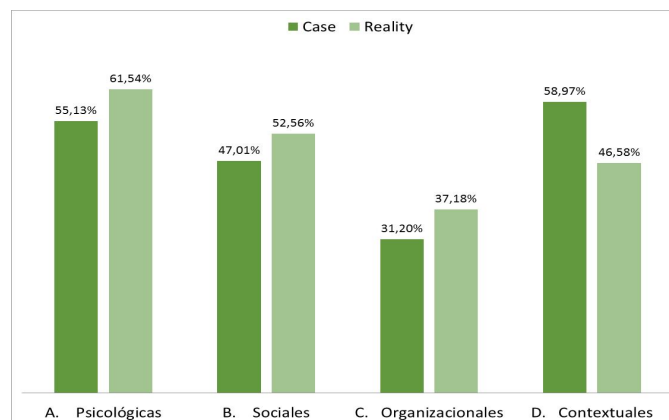


Figure 6. Comparison of what is identified in the case and experience

Source. Prepared by the authors.

For the analysis of the escalation of commitment according to age, the individual with an age equal to or less than 33 years was established as a “younger” person, and those with an age greater than 33 years were established as an “older” person.

For the “younger people” the psychological and contextual components are more important with 57% and 50% respectively, while the social and especially the organizational components are valued by the elderly with 55% and 70% (Figure 7), being in agreement with the studies carried out by Wong and Kwong (2019).

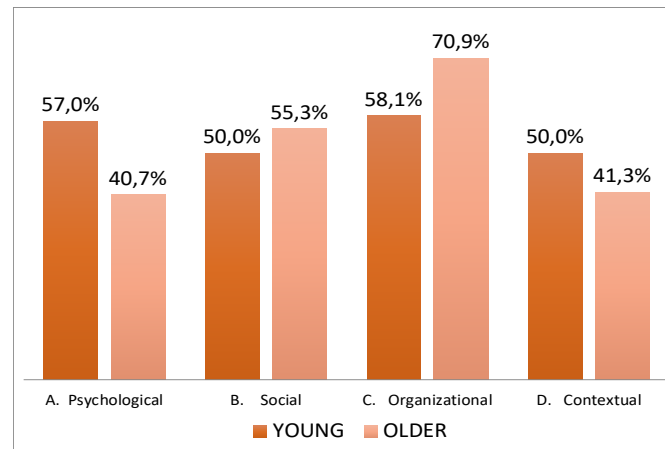


Figure 7. Preference of components of the escalation of commitment according to age

Source. Prepared by the authors.

With respect to gender, it is observed that not in all the components of the escalation of commitment one gender takes precedence over the other. While for women, the social and organizational component is greater with 47% and 72% compared to men, the psychological and contextual behaviors are more valued by men (Figure 8).

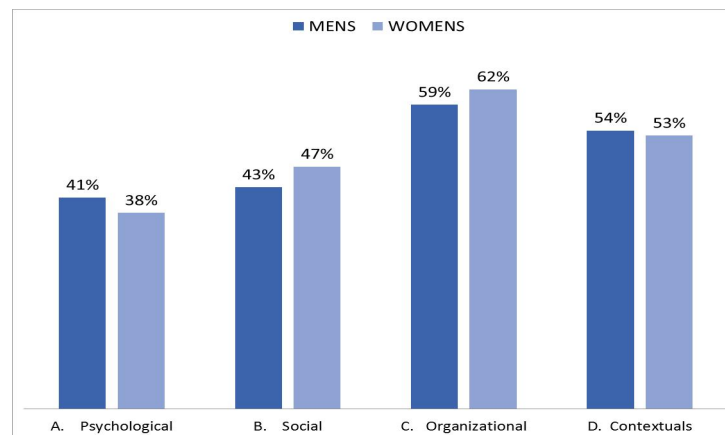


Figure 8. Behavior of the components of escalation of commitment according to gender

Source. Prepared by the authors.

The last analysis of the respondents' answers focused on determining which of the actions could be most effective in reducing the escalation of commitment for a financial manager. Based on previous research, six actions were proposed (Table 5).

Table 5. Actions to reduce the escalation of commitment

ACTIONS	No
Establishing and tracking minimum business performance targets.	1
Getting different people to make the initial and subsequent decisions of a project	2
Encouraging less egocentric behaviour among decision-makers.	3
Providing frequent feedback on the progress and costs of the project.	4

Reducing the risk or punishment resulting from failure	5
Making decision-makers aware of the costs of persisting with the Project, and emphasizing that the investment that was made are sunk costs.	6

Source. Prepared by the authors based on Ross and Staw (1993); Drummond and Hodgson (2011).

As it can be seen in figure 9, the action “Getting different people to make the initial and subsequent decisions of a project” with a rating of 3.5 is the least valued in the two groups, that is, it is the action that least decreases the escalation of commitment. Like the other actions, the “elderly” rate the actions more than the younger ones (Figure 9).

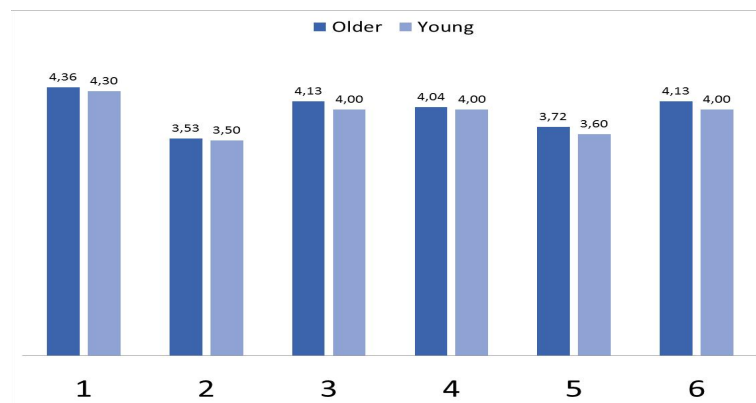


Figure 9. Actions to avoid escalation of commitment for younger and older

Source. Prepared by the authors.

5. Conclusions

Staw (2005, 1981, 1976) asserts that his appreciation of the escalation of commitment is an approach to the reality that is experienced within companies, and invites further investigation into the phenomenon through the understanding that “the dynamics of escalation can be a truly multilevel process that requires much more interdisciplinary thinking ... and that can be developed as a multilevel theorization in the field of organizational behavior” (Staw, 2005, p. 232).

Similarly, it invites researchers to develop research ideas by observing the participation and decisions that actors make in the environment (Staw, 2005). He explains that the aim of the theory is to answer the question of “why” and it is strengthened and deepened by taking into account the connections of the phenomena. “It is a story of the explanation of why certain events are acted out and take place, where the convincing and interconnected logic of arguments is the support of the theory, since a good theory explains and predicts” (Staw, 2005, p. 235).

In order to make a field study of the escalation in an organization, there are three key aspects must be taken into account in the presentation of an escalation: 1) an ongoing decision, 2) negative or ambiguous feedback, and 3) opportunity to commit additional resources over the time (Staw, 2005)

In the case of the escalation of commitment and its application, different applications at the business level have been found, such as the case of the investigation on the decisions of local and international investors carried out by Devigne, Manigart, and Wright (2016). This study investigates the differences between local and foreign investors when investing in venture capital. The research focuses on determining the influence of emotional, social, and institutional factors on an unsuccessful investment, the sample was 1,060 investors in 684 European technology companies.

The results show that national investors have a high tendency to intensify their commitment, while investors outside their border have a lower social and emotional involvement in the project and a lower entrenchment in the local economic and social environment. In addition, investors tend to avoid the completion of failed projects; they increase their commitment and continue to invest, even though the information shows that the investment does not meet the expectations.

This is surprising, as venture capital firms protect themselves against this kind of decision bias. First, investment and termination decisions typically require approval by one or more investment committees, rather than by an individual.

This is consistent with the theory of self-justification, which suggests psychological pressures as an explanation of the increase in commitment (Sleesman *et al.*, 2012).

Another element to consider is if the investment is made jointly with another company with which policies or regulations regarding withdrawal from a project are agreed. Non-compliance can also lead to a bad image and to limit access to new investment projects.

The investigation by Devigne *et al.* (2016) revealed how the emotional, social, and institutional differences of international investment, compared to investment in the country, can protect venture capital investors from the escalation of commitment when an investment tends to fail.

In addition, he discovered how the differences in the emotional attachment and social integration of each of the investors, domestic and foreign, are different in this type of venture capital investment. It becomes apparent that there is a greater likelihood to escalation of commitment for national venture capital investors in relation to international investors, either by investing through a local branch or its headquarters.

The behaviors of the escalation of commitment are valued differently if the decision makers are "younger" or "older", or if they are male or female. For "older" women over the age of 33, the component where the greatest value is given is the organizational component; while for a "younger" man, its component is psychological.

The most valued or important aspect of the organizational component is "Worker support policies" as this reflects the link and responsibility that is created between the organizational part and its workers. With regard to the psychological component, the most valued element is in particular what refers to self-esteem: "not wanting to assume self-esteem conflicts".

Among the less sensitive elements for escalation among the groups that were analyzed, we found: management actions to avoid escalation, the difference between simulated and reality, and other demographic data such as city, marital status, and number of children.

It is important to highlight that there is a great influence of the theory of escalation of commitment in the decision making of companies, and therefore, it would be interesting to apply its concepts to a specific sector in Colombia, and to a specific decision in order to have an empirical test of the application of this phenomenon and consequently reach conclusions or new contributions.

6. Limitants

In the development of the investigation, we identified the following as main limitations: (i) the impossibility of determining the partiality or impartiality of the interviewee, since elements of the individual management of the persons in charge of a company may be revealed in the questionnaire, (ii) the time that was required to read and interpret the proposed case, and (iii) the little demographic information obtained from the interviewees. Overcoming these limitations may lead to finding relationships between the levels of escalation of the commitment. Among the main limitations, it is necessary to highlight the impartiality of the interviewee, the time available to read and understand the case and, in particular, to have more demographic study data, such as level of education, social stratum, or years of experience in business management.

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