

ESCALATION OF COMMITMENT TO FAILING PROJECTS: EXPLORING THE PHENOMENON, ITS CAUSES, AND REMEDIES IN VIETNAMESE BUSINESS ENTERPRISES

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ABSTRACT

Vietnam was expected to be the next economic power in Asia before the Asian crisis of 1997 took its toll on the Vietnamese economy. However, "Vietnam is showing up on the radar screens of people who source products in Asia" [1] as recently the US Senate approved normal trade relations with Vietnam. As a result, more and more US companies may also start businesses in Vietnam because of the Trade liberalization measure signed into law. In the current period of capital crunch and intense competition, enterprises need to respond quickly to problems, threats, and opportunities. However, a large body of research studies shows that managers are often slow to abandon failing projects. Against available evidence indicating that certain projects are likely to fail, managers often increase their commitment to them, thus throwing good money after bad. This phenomenon has been termed as "escalation" in the literature.

The current study explores whether the tendency to escalate also exists among Vietnamese managers, and compares the results with those of US managers. Survey responses were collected from 70 experienced Vietnamese and 67 US managers who work in a wide range of industries and functional areas. The results show that escalation problem is considered moderate to extremely extensive by fewer Vietnamese managers (31.4%) as compared to the US (52.2%). However, the perception of extensiveness increases with the decreasing management level in Vietnam only, such that the lower level managers in Vietnam consider it to be most extensive, even more than what is perceived by any US management level. Regarding the profit impact of escalation problem, overall 47.1% of the Vietnamese and 50.7% of the US managers consider it to be moderate to tremendously negative. However, while top managers in the US consider the impact of the escalation problem to be greater than the other managers do, the situation is reverse in Vietnam. Similar to US managers, the Vietnamese managers consider the overall causes and remedies in the list quite important and effective, despite some individual differences.

REFERENCES

- [1] Dunphy, Stephen, Stephen Dunphy's Newsletter, *Seattle Times*, 2002, April 24.