De-escalation Strategy: The Impact of Monitoring Control on Managers’ Project Evaluation Decisions

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Abstract
The paper examines the effect of monitoring control as a control mechanism in preventing managerial escalation of commitment under an agency problem setting. A total of 74 business students participated in a laboratory experiment based on a 2x2 factorial analysis of variance (ANOVA) between-subjects design with random assignment. The independent variables are information availability (public and private) and monitoring control (present and absent). The dependent variable is project managers’ decision for continuing or discontinuing a failing or unprofitable investment project. The results suggest that project managers will discontinue an unprofitable project in the presence rather than absence of monitoring control under a private information situation.

Keywords
Monitoring Control  
Control Mechanisms  
Agency Problem Setting  
Laboratory Experiment  
Information Availability  
Investment Project Evaluation

Introduction
De-escalation strategies are important for firms because they can be used to reduce managers’ over-commitment of resources to failing or unprofitable projects. Numerous studies have examined various de-escalation strategies (Ghosh, 1997; Cheng, Schulz, Luckett and Booth, 2003; Kadous and Sedor, 2004; Booth and Schulz, 2004; Ku, 2008). Ghosh (1997), for example, found that three control procedures were effective in reducing escalation of commitment: (1) providing unambiguous feedback regarding previous expenditure, (2) preparing a progress report on the project, and (3) providing information about future benefits of additional expenditures. Cheng et al. (2003) found that project managers who were involved in setting the hurdle rate were against the escalation tendency. Kadous and Sedor (2004) concluded that a third party consultant with a specific purpose to make project continuation recommendations played a significant role in preventing project managers’ escalation of commitment. Booth and Schulz (2004) found that a strong ethical environment reduced managerial escalation of commitment. Ku (2008) found that escalation-related regret can be used to de-escalate commitments.

Our paper contributes to the escalation of commitment literature by further broadening our understanding of escalation of commitment and how to prevent it. Specifically, our paper aims to add to the current knowledge of de-escalation strategies by examining one control mechanism, namely monitoring control to mitigate project managers’ escalation of commitment. We argue that monitoring control can be used to reduce the self-justification motive (see Simonson and Staw, 1992). The self-justification motive results from a need to justify an ineffective or incorrect prior decision (Staw, 1976).

1 The terms “failing” and unprofitable” project are used interchangeably in this paper.

2 Monitoring control is operationalized in this study as establishing a project evaluation department which is assigned to evaluate the managers’ decisions regarding investment projects they initiated and managed.
We conducted a laboratory experiment to explore how managers’ project evaluation decisions differ with the presence or absence of monitoring control under a private information condition. In the experiment, participants assumed the role of a project manager. The results of our study suggest that when project managers possess information privately, they have a greater tendency to discontinue an unprofitable project in the presence of monitoring control when compared to when such monitoring control is absent.

This paper is organised as follows. In the next section, the hypothesis underlying the study is developed. Subsequent sections present the research method, results, conclusion and limitations of the study.

Hypothesis Development

Monitoring control has been defined as the use of information by the principal to document and curb agents’ opportunistic behaviours (Eisenhardt, 1989). Prior studies have relied on self-justification theory and agency theory to examine managerial escalation of commitment.

Self-justification theory asserts that agents who are responsible for previous investment decisions will not admit to themselves or others that their prior use of resources was incorrect. They are more likely to continue to misallocate resources (escalate their commitment) because they need to self-justify their prior decisions (Staw, 1976; Staw and Fox, 1977; Conlon and Wolf, 1980).

Agency theory, on the other hand, provides different perspectives regarding the effect of monitoring on escalation tendencies. Agency theory asserts that when monitoring control is available, the agents would be constrained to maximise their self-interest (Jensen and Meckling, 1976; Eisenhardt, 1989), therefore they are expected to be less likely to escalate their commitment. Simonson and Staw (1992), for example, found support for agency theory predictions. Specifically, Simonson and Staw found that when managers were informed that their decision would be evaluated by others; they reduced the amount of money to be invested in a failing project (i.e., reducing escalation). Similarly, Kirby and Davis (1998) concluded that subordinates were less prone to escalate their commitment to a failing strategy when their performance was being monitored.

The above discussions have demonstrated two competing views with respect to escalation of commitment literature. Self-justification theory predicts escalation of commitment would be greater along with the increasing agents’ motivation to self-justify their previous decisions. On the other hand, agency theory posits that the presence of monitoring control reduces agents’ escalation behaviour. Despite the contradictory predictions of the above two theories, our paper attempts to resolve the conflicting empirical evidence by providing a plausible explanation to the escalation phenomena.

As noted earlier, prior studies have indicated that when agents are held personally responsible for a failing course of action, they would feel more need to “justify” their initial decisions. Such a self-justification motive is attributed to the decision makers’ unwillingness to expose their errors or mistakes to others (Conlon and Wolf, 1980; Brockner and Rubin, 1985) and the desire to save “face” (Tse et al., 1988; Chow et al., 1997). Thus, it follows that the self-justification motive for project managers who held personally or solely responsible for a course of action is likely to be higher, leading to escalation of commitment.

This stream of literature which relied on self-justification theory has failed to recognise the role that agency relationship plays in escalation. These studies have ignored the fundamental agency relationship in which managerial decision-making process occurs. In an agency relationship, the principal employs an agent and delegate responsibility to the agent to perform on behalf of the principal. Such relationship results in potential agency problems due to the availability of information.

Agency theory predicts that an agent has the incentive to shirk and the availability of information (i.e., private information) can provide the vehicle of this opportunity to shirk (Harrell and Harrison, 1994; Rutledge and Karim, 1999). Numerous studies have proposed the use of monitoring control to prevent agent’s incentive and opportunity to

The findings of the self-justification theory-based studies (e.g., Conlon and Wolf 1980) indicate that the escalation of commitment is due to the inability of monitoring control to reduce the agents’ self-justification motives; while for the agency theory-based studies, the reliance on monitoring can be used to lessen the agents’ self-justification motives. This explanation is consistent with those of Simonson and Staw (1992, pp. 419-420) who note that “… a logical de-escalation technique might be based on reduction of the need for self- or external justification”. Relying on agency theory, we predict that when monitoring control is absent, project managers have a higher tendency to escalate their commitment to an unprofitable project as they will be reluctant and not willing to expose their errors or mistakes to others. In addition, the absence of monitoring control also provides the opportunity for project managers to increase the need for external justification (e.g., face-saving). On the other hand, we expect that the presence of monitoring control compels project managers to behave in the interests of the principal. The presence of monitoring control exerts pressure to reduce project managers’ self-justification motives.

**Monitoring Control and Privately-Held Information**

As noted earlier, prior studies (Harrison and Harrell, 1993; Harrell and Harrison, 1994; Harrison et al., 1999) conclude that when information about project performance is publicly available, project managers exhibit less tendency to continue an unprofitable project as they will be reluctant and not willing to expose their errors or mistakes to others. In addition, the absence of monitoring control also provides the opportunity for project managers to increase the need for external justification (e.g., face-saving). On the other hand, we expect that the presence of monitoring control compels project managers to behave in the interests of the principal. The presence of monitoring control exerts pressure to reduce project managers’ self-justification motives.

3 Tosi et al. (1997) found that agents’ decisions are more consistent with the principal’s interest when principal acquire information that affect their interest through monitoring control. Kirby and Davis (1998) found that monitoring reduces agents’ tendency to escalate their commitment to failing strategies. Thus, agency theory predicts that when agents are monitored by the principal, the agents are more likely to behave in the interest of the principal.

On the other hand, the principal will not be able to observe the agents’ behaviour when information is available only to the project managers (i.e., a private information condition). Under such a condition, project managers are in possession of private information unknown to the principal. Such condition is conducive for project managers to engage in opportunistic behaviours (Harrell and Harrison, 1994; Harrison, et al., 1999). For example, a project manager invests additional funds to a failing project to avoid the negative signal of discontinuing a project that could be damaging to his/her reputation as a talented manager (Kanodia et al., 1989; Harrell and Harrison, 1994; Harrison, et al., 1999). Thus, it is expected that project managers are more likely to escalate their commitment to a failing project under a private information condition.

Taken together, we hypothesise that when a private information condition exists, project managers are expected to be more likely to discontinue an unprofitable project when monitoring control is present rather than when it is absent. Thus, the formal hypothesis is as follows:

**H1**: Project managers will more likely to discontinue an unprofitable project when they experience the presence of monitoring control rather than the absence of monitoring control under a private information condition.

**Method**

This study employs a laboratory experiment to investigate the hypothesis formulated. To test the hypothesis H1, a 2x2 factorial analysis of variance (ANOVA) between-subjects experimental design was used. The subjects for the experiment consisted of 77 undergraduate students who were enrolled in the Bachelor of
Commerce degree programme at a large Australian University. The subjects consisted of 42 males and 35 females. The average age of these subjects was 20 years old. Due to failing in answering manipulation checked questions, three out of 77 subjects were excluded from the sample, resulted in 74 usable subjects. Subjects were paid $15.00 (Australian dollars) for the time they spent in participating in the experiment.

The Case Material
Subjects were randomly assigned to one of the four experimental conditions (See Figure 1).4

The four experimental conditions were based on the manipulation of two independent variables, namely information availability (i.e. public or private) and monitoring control (i.e. absent or present).

Subjects were asked to play a role of investment manager in a hypothetical company, namely The Sweets Company, which produced and sold chocolates. The Vice-President of Finance delegated them to identify and in charge of a potential viable investment project. Subjects were informed that when they initiated an investment project, they were given total autonomy in their decision and held sole responsibility for the success or failure of the project.

The subjects were informed that in year zero, they made a recommendation to invest $1,000,000 in Project Chocolate which involved buying a new production machine. This machine has an estimated useful life of 7 years with annual net cash inflows of $450,000 per year. The performance report of the investment project was provided. For the first year, the project resulted in actual cash inflow of $500,000, which was above the expectation. In the second year, the actual cash inflow was $450,000. The problem arose at the end of third year, when the actual cash inflow was $400,000, which was $50,000 below the expectation. Subjects assumed they were now at the point of the end of third year. The financial information about projected performance for the next four years was provided as well. It described that the variance in cash inflow (i.e., the difference between expected and projected cash inflow) for the next four years would be steadily declining. Regardless of the poor performance of the investment project, the Board of Directors decided to give an additional $1,000,000 for Project Chocolate for promotion of the project to improve the sales demand.

Subjects in the public information condition were told that The Sweets Company always announced the performance of all investment projects monthly. Therefore, the information about the performance of the project managed by the subjects would be known to all subjects.

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4 Our study did not use a control group despite the use of a control group increases the internal validity of the study. To enhance the internal validity of our study, we control for the effect of extraneous variables. An extraneous variable refers to any variable other than the independent variable that may influence the dependent variable (see Christensen, 1994). We achieve this objective by randomization and constancy of conditions (see Kerlinger, 1964; Trotman, 1996). Kerlinger (1964), for example, suggests that randomization is effective in controlling all possible extraneous variables. Trotman (1996), on the other hand, proposes that the experimental procedure which has been kept to the same for all treatments will achieve the constancy of condition. Accordingly, we randomly assigned our subjects into the four treatment conditions (see Figure 1). We also provided our subjects with the same instructions for each treatment except when they need to be modified for different treatments.
employees of the company including the Board of Directors. Subjects in the private information condition were told that the information about project performance is available only to them.

In addition, subjects in the presence of monitoring control were told that the chief executive officer (CEO) agreed to establish a Project Evaluation Department to monitor all investment activities of the company as recommended by an independent consulting firm. The major role of such a department is to evaluate the investment managers’ decisions regarding investment projects they initiated and managed. All investment projects have to be submitted to this department for review every quarter. The Project Evaluation Department was established one month ago. On the other hand, subjects in the absence of monitoring control were told that the CEO was not keen with the recommendation given by an independent consulting firm about the establishment of the Project Evaluation Department, and hence the Project Evaluation Department had not been established.

Subjects were then asked to make a managerial decision that is whether they choose to continue or discontinue Project Chocolate. After making the decision, subjects were asked to answer two manipulation check questions. The first question asked whether the information about Project Chocolate performance was available to others in the company or not. The last question was asked whether the Project Evaluation Department was established by the company or not. A sample case material is shown in Appendix One.

Results

A 2x2 analysis of variance (ANOVA) was used to test hypothesis H1. Two levels of information availability (i.e. public vs. private information) and two levels of monitoring control (i.e. absent vs. present) were manipulated as the independent variables of escalation of commitment to an unprofitable project.

Hypothesis H1 predicts that project managers who are under private information condition will more likely to discontinue an unprofitable project when they experience the presence of monitoring control rather than the absence of monitoring control. As presented in Table 1, Panel A, the result of two-way interaction between information availability and monitoring control is statistically significant (F = 12.799, p<0.001), suggesting that the interaction of the two variables affect project managers decision to discontinue an unprofitable project. This result provides initial support for H1.

The results presented in Table 1, Panel B indicates the nature of the two-way interaction. The two-way interaction is illustrated in Figure 2.

When information is privately available, the mean response of subjects under the presence of monitoring control cell (Cell 4 = 6.529) is higher than those in the absence of monitoring control cell (Cell 3 = 3.222). The results of Bonferroni t-statistic (see Table 1, Panel C) reveals that the mean difference (3.307, p<0.001) is statistically significant. Taken together, these results support H1 which suggests that the presence of monitoring control system is effective in reducing escalation of commitment when information is privately available.

Discussions and Conclusion

Our results found that when project managers possessed information privately, they had a greater tendency to discontinue an unprofitable project when monitoring control was present than when it was absent. Since agency relationship underlies managerial decision making, this particular finding provide evidence for agency theory’s prescription that company needs to establish such monitoring control to align the conflicting principal versus agents’ interests. This finding suggests that establishing monitoring control could prevent project managers’ tendency to continue a failing or an unprofitable project, particularly when agency problem (e.g., private information) is present.

Our study contributes the literature in the following ways. First, the results of our study revealed that monitoring control was an effective de-escalation strategy. When agency problem (i.e., private information condition) exists, monitoring control is effective to reduce escalation of commitment. The logical
explanation might be first, departing from agency theory, monitoring control is needed to constrain agents’ opportunity to maximise their self-interests (Jensen and Meckling, 1976; Eisenhardt, 1989). Second, contrary to the findings of Conlon and Wolf (1980),

Table 1: ANOVA and the Mean Score for a Decision to Continue a Project by Managers across Information Availability and Monitoring Control Conditions and Multiple Comparisons

<table>
<thead>
<tr>
<th>Source</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information availability (IA)</td>
<td>49.892</td>
<td>1</td>
<td>49.892</td>
<td>8.885</td>
<td>0.004</td>
</tr>
<tr>
<td>Monitoring Control (MC)</td>
<td>32.730</td>
<td>1</td>
<td>32.730</td>
<td>5.829</td>
<td>0.018</td>
</tr>
<tr>
<td>IA x MC</td>
<td>71.872</td>
<td>1</td>
<td>71.872</td>
<td>12.799</td>
<td>0.001</td>
</tr>
<tr>
<td>Error</td>
<td>393.073</td>
<td>70</td>
<td>5.615</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

$R^2 = 0.279$; Adjusted $R^2 = 0.248$; F-Value = 9.021, $p<0.001$

Panel B: Mean and Standard Deviation for a Decision to Continue a Project by Managers

<table>
<thead>
<tr>
<th>Information Availability</th>
<th>Monitoring Control</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Absent</td>
<td>Present</td>
</tr>
<tr>
<td>Public</td>
<td>Mean 6.842</td>
<td>Mean 6.200</td>
</tr>
<tr>
<td>S.D. (2.089)</td>
<td>S.D. (2.587)</td>
<td>n = 20</td>
</tr>
<tr>
<td>n = 19</td>
<td>n = 20</td>
<td></td>
</tr>
<tr>
<td>Private</td>
<td>Mean 3.222</td>
<td>Mean 6.529</td>
</tr>
<tr>
<td>S.D. (2.184)</td>
<td>S.D. (2.577)</td>
<td>n = 17</td>
</tr>
<tr>
<td>n = 18</td>
<td>n = 17</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Mean 5.081</td>
<td>Mean 6.351</td>
</tr>
<tr>
<td>S.D. (2.793)</td>
<td>S.D. (2.552)</td>
<td>n = 37</td>
</tr>
<tr>
<td>n = 37</td>
<td>n = 37</td>
<td></td>
</tr>
</tbody>
</table>

Note: Lower values (5 or less) indicate a decision to continue a project, while higher values (6 or more) indicate a decision to discontinue a project.

Panel C: Multiple Comparisons (Bonferroni t-Statistics)

<table>
<thead>
<tr>
<th>Cells 1 and 2</th>
<th>Mean Difference</th>
<th>Standard Error</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cells 1 and 3</td>
<td>3.619</td>
<td>0.779</td>
<td>0.001</td>
</tr>
<tr>
<td>Cells 1 and 4</td>
<td>0.313</td>
<td>0.791</td>
<td>1.000</td>
</tr>
<tr>
<td>Cells 2 and 3</td>
<td>2.978</td>
<td>0.770</td>
<td>0.001</td>
</tr>
<tr>
<td>Cells 2 and 4</td>
<td>0.329</td>
<td>0.781</td>
<td>1.000</td>
</tr>
<tr>
<td>Cells 3 and 4</td>
<td>3.307</td>
<td>0.801</td>
<td>0.001</td>
</tr>
</tbody>
</table>
monitoring control did not intensify the agents’ need to justify their prior decision by escalating their commitment to a failing fund-allocation decision. Rather, it threatened the self-justification motive. When monitoring control is present, project managers would have no more need to “justify” their initial decisions because such information about the failing of the project is available to the principal. The present of monitoring control leaves no room to project managers to save “face” as well as no room to perform their opportunistic behaviour. Monitoring control, in this study, was found to reduce project managers’ tendency to escalate their commitment to a failing or an unprofitable project, particularly when the project managers possessed related-information about project performance privately.

Second, our study provides an explanation about two competing perspectives of self-justification theory and agency theory in explaining the effect of monitoring control on escalation behaviour. As discussed earlier, a study based on self-justification theory found that monitoring intensify the agents’ need to justify their prior decision by continuing the misallocation of resources (see Conlon and Wolf, 1980). On the other hand, agency theory asserts that monitoring would compel agents’ behaviour to be in line with their principal interest (Jensen and Meckling, 1976; Eisenhardt, 1989). When monitoring control is
present, it was found that escalation of commitment was reduced (Simonson and Staw, 1992; Kirby and Davis, 1998). This result suggests that monitoring control can be used as an effective control mechanism to curb agents’ opportunistic behaviour.

The agency relationship underlies managerial decision making in a company, including project evaluation decision making. It is assumed by agency theory that information is never symmetrical between principals and agents. The threat of a private information condition is potentially destructive to the profit maximisation objectives of the company. Creating a monitoring control mechanism is needed to cope with such agency problems (Jensen and Meckling, 1976; Eisenhardt, 1989). Monitoring control has been found to prevent an agent’s incentive and opportunity to shirk (Tosi et al., 1997). In the context of evaluating an investment project, our study found that when project managers possessed information privately, monitoring control was effective in reducing escalation behaviour.

This study has a number of limitations. First, this study uses experimental design to study the effect of private information and monitoring control on escalation behaviour. Consequently, it uses decision case materials which simplify abstractions of the real-world situation it represents. It is hard to include all information potentially needed by managers to make these particular types of resource allocation decisions. However, this study attempts to construct decision making tasks which capture the essential elements of project escalation. Second, the experimental design provides the potential for a high level of internal validity because it allows decision-making behaviour to be studied in a controlled environment. However, caution should be used to generalise the results of this experiment to other situations. Third, the failure of this study to use a ‘control group’ will potentially limit the generalisability of our interpretations.

Further research on escalation of commitment can examine the effect of establishing appropriate incentives by the principal (Jensen and Meckling, 1976; Baiman, 1990). A company may establish a compensation contract involving a payment of substantial bonuses to a project manager after either the successful completion of a project, or the discontinuation of a project which is projected to be unprofitable in the future. Such a compensation contract might align the interest of the project manager and the principal. Project manager under such contract is expected to be motivated to continue a profitable project and discontinue one which is failing or predicted to be unprofitable in the future.

In addition, external events (e.g., financial crisis, natural disaster, public scandal) that indirectly affect the performance of an investment project might also stimulate project managers to re-evaluate the ongoing resource allocation and might lead to the possibility for project managers to discontinue a failing project. For example, Keil (1995) found that an external shock to an organisation contributed to the discontinuation of a software project development which was predicted to be failing. Further research is needed to examine how external events could mitigate escalation of commitment.

To date, the escalation literature has focused on the individual level and there have been relatively few studies of escalation of commitment at the group level (e.g., Whyte 1991, 1993). While much managerial decision making is done by a group, it was found that group interaction leads to more extreme decisions compared to those of individual decision making (Rutledge and Harrell 1994). Further research to investigate the effect of the private information condition and monitoring control in a group setting is needed. Shifting the analysis into a group level could provide insight into whether the main effect of private information and monitoring control remain similar to those found in the individual setting, and whether the interaction between private information and each de-escalation strategy remains significant in affecting escalation of commitment in a group setting.

References


Appendix One: A Sample Case Material for Experiment

Private information and presence of monitoring control

THE SWEETS COMPANY

Background
You are currently the investment manager of The Sweets Company, a firm that manufactures and sells chocolates. Through hard work and dedication, you have gained an industry-wide reputation as a highly talented manager. As a result, you are delegated by the Vice-president Finance to look out for potential viable investment projects. It has been agreed that if you identify a viable investment project, you can go ahead with the investment project as you are given total autonomy in your decision. Thus, you will hold sole responsibility for the success or failure of a project.

In year 0, you made a recommendation to invest $1,000,000 in Project Chocolate, which involved buying a new machine to produce different types of chocolates. This new machine has an estimated useful life of 7 years.

The financial information related to the new machine is shown as follows:

| Initial investment (year 0) | $1,000,000 |
| Project life               | 7 years    |
| Annual net cash inflows    | $450,000 p.a |

Your recommendation to invest in Project Chocolate was adopted by the firm and implemented in Year 1.

Performance Evaluation
It has been three years since you have initiated Project Chocolate. It’s time now to review the success of your initial investment decision. However, the actual performance for Year 3 did not compare favourably with expectations, and was rather disappointing!

The performance of Project Chocolate in the past three years is summarised as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected cash inflow</td>
<td>$450,000</td>
<td>$450,000</td>
<td>$450,000</td>
</tr>
<tr>
<td>Actual cash inflow</td>
<td>$500,000</td>
<td>$450,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>Variance in cash inflow</td>
<td>$50,000</td>
<td>$0</td>
<td>$(50,000)</td>
</tr>
</tbody>
</table>

Despite the performance of the Project Chocolate in Year 3 (negative cash inflow of $50,000), the Board of Directors has decided to put aside additional $1,000,000 for Project Chocolate. You can use the $1,000,000 for a comprehensive marketing campaign to promote Project Chocolate and improve its sales demand.

To help you to make the decision, you have asked the marketing division of The Sweets Company to conduct market research on the future sales demand of Project Chocolate, and they have come up with the following financial information, the projected performance of Project Chocolate for the next four years:

<table>
<thead>
<tr>
<th>Year</th>
<th>4*</th>
<th>5*</th>
<th>6*</th>
<th>7*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected cash inflow</td>
<td>$450,000</td>
<td>$450,000</td>
<td>$450,000</td>
<td>$450,000</td>
</tr>
<tr>
<td>Projected cash inflow</td>
<td>$375,000</td>
<td>$400,000</td>
<td>$350,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>Variance in cash inflow</td>
<td>$(25,000)</td>
<td>$(50,000)</td>
<td>$(100,000)</td>
<td>$(150,000)</td>
</tr>
</tbody>
</table>

*Includes the effect of the $1,000,000 marketing campaign expenses.
Information Availability
The above information is available only to you and the Board of Directors will never receive this information.

Monitoring Control
Last year, an independent consulting firm had recommended that The Sweets Company to establish a Project Evaluation Department to monitor all investment activities of the company. The major role of the Project Evaluation Department is to evaluate the investment managers’ decisions regarding investment projects that they initiated and managed. The chief executive officer (CEO) was very keen with the idea. He commissioned a working party immediately to establish such department six months ago. Last month, a new Project Evaluation Department was established, and progress reports on all investment projects will have to be submitted to this Department for review every quarter.

Managerial Decision

(1) Will you choose to continue or discontinue Project Chocolate?
(Please circle an appropriate number)

<table>
<thead>
<tr>
<th>(Continue) Option 1</th>
<th>(Discontinue) Option 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 2 3 4 5</td>
<td>6 7 8 9 10</td>
</tr>
<tr>
<td>Definitely continue</td>
<td>Definitely discontinue</td>
</tr>
</tbody>
</table>

Instruction: Please respond to the following questions:

1. Please tick (✓) which of the following two descriptions best indicates the circumstances related to Project Chocolate.

   [ ] Information about Project Chocolate’s future performance is known only to you and your team members; it is not available to others in your firm and industry.

   [ ] The Delicious Choc Company made information about Project Chocolate’s future performance widely known to others in your firm and industry.

2. Please tick (✓) which of the following two descriptions best indicates the circumstances related to The Sweets Company.

   [ ] A Project Evaluation Department (a monitoring control) has been established by The Sweets Company.

   [ ] It is very unlikely that a Project Evaluation Department (a monitoring control) will ever be established under current management for The Sweets Company.