The Surprising Link Between the Economy and Personnel Evaluations

By Nina Sirola , INSEAD Post-Doctoral Fellow

Macroeconomic changes lead to bias in how we assess the work of others.

In ***Outliers***, nonfiction writer Malcom Gladwell makes the point that typically success does not result uniquely from hard work or innate smarts. Often, luck, good timing, privilege or some other external circumstance provides the boost to push a qualified person into the ranks of the highly successful.

By analogy, in the corporate world, most work is marked by some level of disconnect between the quality of the work itself and the outcome the work produces. For example, investors who make prudent decisions sometimes garner lower profits than those who take reckless risks. This makes accurately evaluating work a challenging task for managers.

This matters because ultimately, organisations want to promote employees who do good work rather than employees whose work accidentally results in good outcomes. By and large, although most people recognise the role of the environment, they do tend to err on the side of over-attributing responsibility to individuals at the expense of contextual influences. For instance, we overestimate doctors' ability to influence disease progression and CEOs' ability to influence firms' performance.

In our paper "**The macroeconomic environment and the psychology of work evaluation**", Marko Pitesa of Singapore Management University and I tested the idea that the overall economic outlook influences how employees' work is evaluated with its associated promotion and demotion decisions. We found that in more prosperous times, people reported a higher generalised sense of control – the view that outcomes result from our actions – and were less likely to believe that contextual influences, such as luck, matter for success in the workplace. We then showed how such perceptions can lead to more extreme personnel decisions.

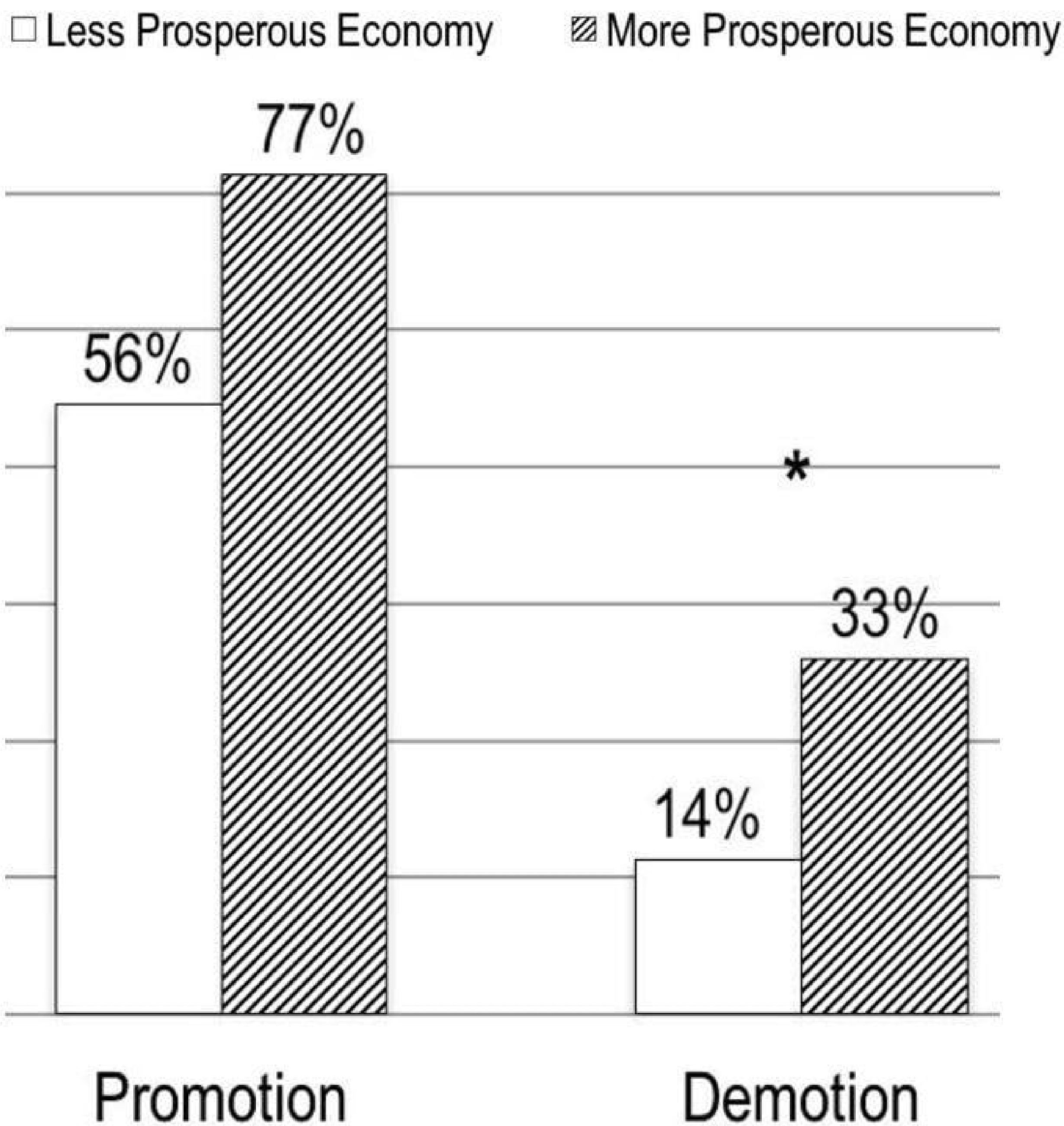
Attributing responsibility for work outcomes

In the first of our three studies, we looked at a sample of 124,400 respondents surveyed across 57 countries from 1995 to 2013, as part of the **Integrated Value Surveys**, the largest publicly available cross-national data set on personal values and beliefs.

Respondents were asked to report how much freedom of choice and control they felt people had over outcomes in life (on a scale from 1 to 10). Through testing, we confirmed that this scale served as a good proxy for our study of attributions of responsibility, i.e. the role of individuals vs. external influences on work outcomes. In more prosperous periods, respondents reported a higher generalised sense of control and, in turn, were more likely to attribute success to individuals.

In addition, we conducted two experimental studies. In both, we asked an industry-diverse sample of over 300 employees based in the United States to read a carefully controlled, fact-based article that described the economy as either more or less prosperous. This successfully influenced their perception of the economic outlook. We then measured their generalised sense of control and how they attributed responsibility for work outcomes. Finally, we asked them to make promotion and demotion decisions based on written scenarios.

Reading about the more prosperous economy (vs. the less prosperous one) made participants 38 percent more likely to recommend a promotion when the scenario described a favourable work outcome, but also 136 percent more likely to recommend a demotion when the work outcome turned out to be unfavourable. The bar graph below shows the percentage of participants who made the promotion and demotion recommendations in both conditions.



Our third study replicated the results of the second one. It also proved our theory that people notice and experience the greater *uncertainty* that characterises less prosperous periods and, because of that, calibrate their generalised sense of control. In other words, when people perceive the economy to be uncertain and unpredictable, they tend to lose their certainty that outcomes are largely the result of an individual's actions. We also found that a generalised sense of control is not a matter of whether people feel upbeat or whether they perceive the economic system to be fair.

What this means for managers and employees

Good times increase people's generalised sense of control, which heightens their natural tendency to overestimate the link between results and work quality. This means that managers may be more willing to credit employees for good outcomes, but also to blame them for poor outcomes. Conversely, when times are bad, the silver lining is that it fine-tunes managers' perceptions. They become less prone to fundamental attribution bias – the tendency to overestimate the personal impact of an agent on a given situation.

An important implication of this psychological phenomenon is that prosperous times may sow the seeds of their own downfall, through the widespread use of inefficient and unfair employee rewards. Firms should thus particularly emphasise policies targeted at making more accurate HR decisions during times of prosperity.

A way to achieve this could consist of training managers to implement bias-reducing techniques. For example, they could be coached to consistently consider alternative influences on employees' work outcomes.

In addition, considering the importance of correctly judging people's work, it is surprising how often managers aren't required to justify their employee evaluations. It often suffices to circle numbers or letters on a form, without providing much in the way of justification. Firms should put in place processes to ensure that all work evaluations and personnel decisions are based on solid evidence.

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