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The macroeconomic environment and the psychology of work evaluation

Nina Sirola[a,*], Marko Pitesa[b]

[a] Organisational Behaviour Area, INSEAD, Singapore
[b] Organisational Behaviour & Human Resources Department, Singapore Management University, Singapore

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ABSTRACT

This research tested the idea that the perception of the state of the macroeconomic environment impacts the psychology underlying an essential organizational function: The evaluation of employees' work and the associated promotion and demotion decisions. We predicted that when the macroeconomic environment is perceived to be more (less) prosperous, people's generalized sense of the extent to which individuals have control over outcomes increases (decreases), leading them to attribute more (less) responsibility for work outcomes to individuals rather than contextual influences. In Study 1, we tested this theory using data from 124,400 respondents surveyed across 57 countries and 19 years and data about objective indicators of their macroeconomic environments. We found that in more prosperous times, people reported a higher generalized sense of control and were less likely to believe that contextual influences, such as luck, matter for work success. In Studies 2 and 3, we manipulated the perception of the macroeconomic environment among employees working in organizations, and we found that those who perceived their economic environment to be more prosperous had a higher generalized sense of control and in turn attributed more responsibility for a work outcome to the individual performing the work, resulting in more extreme promotion and demotion decisions. The consideration of the macroeconomic context of organizational decision making bridges the macro–micro divide in organizational sciences to provide a novel explanation for individual psychology and behavior underlying fundamental organizational processes.

1. Introduction

Evaluating employees' work and rewarding employees based on their performance is critical for the functioning of all organizations. At the same time, evaluating work can be challenging because most work is marked by some level of disconnect between the quality of the work itself and the outcomes the work produces (Denrell & Liu, 2012; Hunter, Schmidt, & Judiesch, 1990). Investors who make prudent decisions sometimes garner lower profits than those who take reckless risks, and the patients of doctors who recommend sensible treatments sometimes fare worse than the patients of doctors who recommend inferior treatments. Ultimately, organizations want to promote employees who do good work rather than employees whose work accidentally results in good outcomes. Thus, when work outcomes are imperfectly correlated with work quality, the ability to distinguish between good and bad workers depends on whether people accurately attribute responsibility for work outcomes to employees or to contextual influences such as chance.

A common finding in psychological and organizational research is that there is much variability and error in attributions of responsibility for work outcomes (Baron & Hershey, 1988; Gilbert & Malone, 1995; Ross, 1977). By and large, people tend to err on the side of over-attributing responsibility to individuals at the expense of contextual influences. People overestimate stock brokers' ability to predict stock performance (Torngren & Montgomery, 2004), doctors' ability to influence disease progression (Baron & Hershey, 1988), auditors' ability to anticipate future financial problems of their clients (Anderson, Jennings, Lowe, & Reckers, 1997), and CEOs' ability to influence firms' performance (Meindl, Ehrlich, & Dukerich, 1985).

In this paper, we test a socioecological explanation of how people attribute responsibility for work outcomes and how they make the associated promotion and demotion decisions. As we noted, people generally over-attribute responsibility for work success to employees whose work outcomes are somewhat disconnected from work quality, such as CEOs. However, we also note that people seem to do so less when the economy is performing poorly, as suggested by the fact that during less prosperous periods, CEOs receive a relatively larger pay cut than do average employees (Mishel & Sabadish, 2013). There are likely other contributing factors for this trend, but we believe it is also possible that an awareness that the economy is in a more versus less prosperous state

* Corresponding author at: Organisational Behaviour Area, INSEAD, 1 Ayer Rajah Avenue, 138676 Singapore, Singapore.
E-mail address: nina.sirola@insead.edu (N. Sirola).

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has transformative psychological consequences, altering people's understanding of individual agency, affecting whether they attribute responsibility for specific work outcomes to individuals or contextual influences, and impacting how they make promotion decisions.

Our theory is that experiencing more (less) economically prosperous periods increases (decreases) people's generalized sense of the extent to which individuals versus contextual factors such as luck have control over outcomes. That is, people update their naïve theory regarding the relative power of individual versus contextual influences in bringing about outcomes in the world as a function of changes in the macroeconomic environment. People are in turn influenced by their generalized sense of control when evaluating responsibility for specific work outcomes, so even when the situation is objectively the same (e.g., an outcome of a medical treatment was largely due to chance), people attribute greater responsibility to the individual who performed the work (a doctor in this example) when their generalized sense of control is higher. Thus, people will understand, interpret, and respond to objectively the same situation in which an employee performed a work task differently depending on their perception of the state of their macroeconomic environment. We test this theory in a large-scale study using data from 124,400 respondents surveyed across 57 countries and 19 years and objective indicators of their macroeconomic environments, and two experiments among U.S. employees working in organizations, in which we manipulated participants' perception of the state of the economy.

This research contributes to the organizational literature on work evaluations by identifying a hitherto overlooked factor influencing how people attribute responsibility for work outcomes and make associated promotion and demotion decisions. As we elaborated above, evaluations of work for which work quality and work outcomes are imperfectly correlated involve a great deal of error, mostly such that people over-attribute responsibility to individuals and underappreciate contextual influences. In light of this fact, the implications of the effect we identify can be understood in two ways. First, during less prosperous periods, people will be more likely to take into account contextual influences on work outcomes. Given that people generally err in the direction of underappreciating contextual influences, this response will tend to be functional and should render people more accurate in their evaluations of work during less prosperous periods. Second, in times of prosperity, when organizations generally face the least problems, managers will be most prone to under-appreciating the role of contextual influences, potentially leading to inefficient and unfair employee rewards (Arvey & Murphy, 1998). In this way, prosperous times may sow the seed of their own downfall. Managers should thus particularly emphasize policies targeted at making more accurate attributions during times of prosperity. We consider potential interventions implied by our research at greater length in the general discussion.

This research also contributes to the literature on attributions. Theory on attributions evolved from relatively static conceptualizations emphasizing the tendency to disregard contextual influences (Gilbert & Malone, 1995; Ross, 1977) to more nuanced models that incorporated determinants of whether and when people attribute responsibility for events to individuals versus contextual influences. While several more micro-influences have been identified, such as the perspective taken by the observer (Jones & Nisbett, 1972), emotions (Forgas, 1998; Keltner, Ellsworth, & Edwards, 1993), and motivational states (e.g. Malle, 1999; Miller & Ross, 1975; Sherman & Kim, 2005), the broadest and most important factor studied in this literature is that of cultural differences. This work found that people from more collectivist cultures tend to take into account the role of contextual factors to a greater extent than do people from more individualistic cultures (Miller, 1984; Morris & Peng, 1994). We contribute to this literature by identifying another large-scale factor determining whether people attribute responsibility to individuals versus contextual influences that adds to existing models of the psychology of attributions. The macroeconomic environment represents a broad explanatory factor because changes in the state of the economy are ubiquitous. For example, the U.S. economy on average fluctuated between economic downturns and upturns roughly every five years over the last one hundred and fifty years (National Bureau of Economic Research, 2011). Because such economic changes occur irrespective of the culture of the given country, our theory may explain large-scale changes in attribution tendencies across as well as within countries.

The ubiquity of macroeconomic changes also highlights the importance of theoretically situating individual decision making in organizations in the broader macroeconomic environment, which constitutes a contribution of our work to organizational sciences more generally. People working in organizations are abundantly reminded of the state of their economic environment. The "stocks" application is among the few that comes pre-installed on many mobile phones, and virtually all newspapers involve a section reporting on the state of the economy. The experience and behavior of people in organizations arguably differs greatly during more relative to less prosperous periods. One illustration of this fact comes from studies reported in Sirola and Pitesa (2017), which found that during less prosperous times, employees start construing success in a more zero-sum manner and become less likely to help coworkers even when doing so does not come at the expense of their own success. Yet, such analyses of how individuals' psychology and behavior are impacted by the state of the macroeconomic environment are still rare in the organizational literature. This explanatory void is possibly due to a deeply rooted methodological divide in organizational sciences. Organizational researchers have traditionally been divided along a macro–micro line whereby individual and team processes have been studied separately from processes at the level of industries and economies (Bamberger, 2008). Our work seeks to transcend this divide. It is unrealistic to model the behavior of individuals in organizations by assuming that they are unaware of and unaffected by the broader economic context (Oishi & Graham, 2010). We hope that our work opens up avenues for explaining individual employee behavior in the context of a constantly changing economic environment.

2. Theory

2.1. Macroeconomic environment affects generalized sense of control

Terms such as "economic downturn," "economic upturn," "prosperous economy," and "recession" are descriptive accounts of the likelihood of business success at the level of an economic system, most commonly at the level of one country's economy (National Bureau of Economic Research, 2015). Thus, one fundamental property of more (less) prosperous economic periods is that they are marked by lower (higher) levels of uncertainty of success. That a certain economic period is more compared to less prosperous means that the average association between an economic endeavor (for example, trying to keep one's job, starting a business, or signing new clients) and success is stronger. During more prosperous economic periods, people are more certain to keep their jobs, see their businesses take off successfully, or sign new clients. During less prosperous periods, the same business endeavors face a lower likelihood of resulting in successful outcomes. Thus, more (less) prosperous periods are defined by a lower (higher) level of uncertainty of economic success. Bianchi (2016) found that people are quite sensitive to such changes in the state of the macroeconomic environment and report a greater need to manage uncertainty during less prosperous economic periods.

We propose that because less prosperous relative to more prosperous periods are associated with a greater uncertainty of the economic environment, they should reduce people's generalized sense of the extent to which individuals versus contextual factors such as luck have control over outcomes. Most people have some theory regarding the extent to which outcomes in the world are determined by individuals' own actions versus contextual influences such as luck (Rotter,