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Performance evaluation bias: A comparative study on the role of financial fixation, similarity-to-self and likeability ☆

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ABSTRACT

Performance evaluations are critical to organizational control. Dissatisfaction with systems emphasizing financial targets only has driven many companies to adopt systems using multiple performance measures. These multiple measurement systems (MMS) however may exacerbate certain cognitive biases. Using multiple performance measures can be a cognitively complex task that invites coping reactions anchored in simplifying heuristic biases, such as the likability of the target evaluatee and similarity-to-self. There are reasons to believe that these biases may manifest differently across "individualistic" or "collectivist" cultures. Our study examines three biases (financial fixation, similarity-to-self and likeability) across two distant cultures (United States and Spain) along the individualistic–collectivist dimensions. Participants are MBA students from Spain and the US. Consistent with theory-based predictions, we find that likability and similarity-to-self impact Spanish participants while financial fixation presents greater influence among US participants. These findings underscore the importance of considering national culture in designing performance measurement systems and advise about the role of specific biases, which are not culturally neutral.

1. Introduction

Personnel performance evaluations are critical to an organization's control system (Burkert, Fischer, & Schaeffer, 2011). Performance review systems provide support for pay increases, bonuses, and promotions as well as help in identifying practices to emulate and those to remediate. In response to dissatisfaction with traditional systems emphasizing short-term financial targets, many companies have adopted performance measurement systems that employ multiple lead and lag measures of performance (e.g., customer related goals, infrastructure goals, learning and innovation goals; see Wiersma, 2009). By doing so, the performance measurement system directs attention to and demands accountability in areas beyond a narrow short-term financial perspective (Bartlett, Johnson, & Reckers, 2014). In this respect, Ferreira and Otley (2009) call for further research on more complex and comprehensive settings, which would expand the observation of measures that are absent or limited in scope. Such research, for example would enhance understanding about financial fixation that is common to reporting and performance management systems in a number of jurisdictions (e.g., in the US, see Kaplan & Norton, 1996; in South Africa, see Bhana, 2009; in Sweden, see Kraus & Lind, 2010).

Multiple measure systems are becoming increasingly popular and some regard them theoretically superior to traditional performance measures (Tung, Baird, & Schoch, 2011). In this respect, Broadbent and Laughlin (2009, p. 291) suggest that context complexity plays a major part in the design and implementation of performance management systems, and this particularly applies to systems using multiple measures. Importantly, such systems are not immune to and may even exacerbate certain cognitive biases and/or behavioral reactions. For instance, prior research suggests that when two managers are comparatively evaluated, evaluators non-normatively attach greater weights to common measures as compared to unique measures (Banker, Chang, & Pizzini, 2004, Dilla & Steinbart, 2005, Libby, Salterio, & Webb, 2004, Lipe & Salterio, 2000). Similarly, other researchers have identified task ambiguity, evaluatee likeability, and similarity of work styles (between subordinate and superior) as factors capable of distorting performance assessments (Bates, 2002; Cardy & Dobbins, 1986; DeNisi, Robbins, & Summers, 1997; Johnson, Murphy, Zewdie, &

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Reichard, 2008; Kaplan, Petersen, & Samuels, 2007; Robbins & DeNisi, 1994, 1998; Turban, Jones, & Rozelle, 1990).

Prior research, however, has not explored the influence of these and related variables within an overarching framework incorporating context complexity (e.g., Broadbent and Laughlin, 2009). Nascent research does show that the outcomes of performance measurement systems using multiple measures are contingent on context complexity (e.g., national culture) and, especially, depending upon whether the participants belong to an "individualistic" or "collectivist" culture (Carmona, Iyer, & Reckers, 2011), which is by far the most influential cross-cultural categorization (see Berry, Poortinga, Breugelmans, Chasiotis, & Sam, 2011, p. 93; Triandis, 1995). In this study, we examine the extent to which performance evaluation is influenced by the interactive effect of context complexity (e.g., national culture) and behavioral and cognitive features such as similarity-to-self and likeability.

2. Background

2.1. Performance evaluation

Agency theory is the dominant theory referenced in research devoted to strategic incentive contracting and performance motivation. The general characterization is that outcome based contracts can be effectively used to motivate effort and control performance. Accounting data traditionally has served to measure performance, and considerable research has focused on identifying those performance measures most effective under different conditions. Performance evaluation has been characterized as an objective comparison of actual performance on selected performance measures with expected performance. The drawbacks of traditional financial measures led to adoption of multiple performance measures in many companies (e.g., the balanced scorecard). A multiple measure performance system contains additional non-financial measures, with an emphasis not on achieving a one-time financial goal but on sustainability achieved through improved infrastructure in multiple synergistic functional areas. Still, separately processing, weighting, and combining multiple measures into a single overall performance measure present a difficult decision task. Moreover, different subordinates may rank differently on different measures, thereby further increasing task complexity and difficulty. When cognitive demands increase, individuals are known to adopt coping mechanisms that may invoke heuristics or personal biases to simplify the problem on hand. These heuristics and biases can systematically distort an already subjective evaluation. Indeed, research has shown that various cognitive and affective factors play an important role in a superior's evaluation of a subordinate (Cardy & Dobbins, 1994; Dipboye, 1985; Kaplan et al., 2007; Lefkowitz, 2000; Murphy & Cleveland, 1991; Turban et al., 1990; Varma, DeNisi, & Peters, 1996; Wong-On-Wing, Guo, Wei, & Yang, 2007). Consequently, the potential sources of distortion in performance evaluation constitute an important continuing focus of research. Sub-optimal performance evaluation implementations are those in which a superior considers information *other than* that identified in performance contracts (Kunda, 1990; Varma et al., 1996). In this study we examine variables that have not received due attention to date: national culture, and its relation to (interaction with) evaluatee likability, similarity-to-self and fixation on financial outcomes.

2.2. National culture

Multiple measure performance evaluation systems attempt to promote long-term strategic decision making as opposed to decisions that have just a short-term benefit (which may be a result of focusing primarily or solely on traditional financial outcomes). Usually such systems link individual actions to an overarching strategy for success and long-term sustainability. These systems promote a shared vision where individual actions are designed to benefit the entire organization. That is, they are designed to articulate how different functional areas are co-dependent and how actions of each individual contribute to the organization. This co-dependence forms the basis of common goals and cooperative actions. However, for any management accounting practice (such as a performance evaluation system) to be effective, it must achieve "buy-in" and to achieve "buy-in" it must reflect the shared values and culture of the stakeholders (i.e., the historical corporate culture; see Tucker, Meyer, & Westerman, 1996). In the current, global environment the relevant culture may be as much the national culture of the employees as the historic corporate culture (Gelfand & Christakopoulou, 1999; Hofstede, 1980, 1997). Corporations founded in one country now often have operations, divisions or subsidiaries in a host of countries. A universal corporate culture may not exist. This begs the question as to whether one model will fit all operations, everywhere. For instance, will US people, who have consistently reflected an "individualistic culture," respond to an evaluation system in a fashion similar to say members of Spanish-speaking cultures known to reflect a more "collective culture" (Hofstede, 1997)? Is it likely that US people will favor short-term, financial based performance measures as opposed to Spaniards who may more readily accept long-term, multiple measure based evaluation system since it reflects their collectivist mindset? Furthermore, will the biases identified in prior research manifest differently in these two cultures? These are the questions we investigate in this paper. In the next section we explore relevant literature and delineate our research hypotheses.

3. Theory and hypotheses

The impetus for performance evaluation using multiple performance measures stemmed from the concern that financial measures alone provided an incomplete view of an organization's and individual's performance (AICPA 1994, Drucker, 1954, Kaplan & Norton, 1992). The consensus was that financial measures alone would lead individuals to focus on actions that improved short-term performance. To mitigate this short-term bias, organizations often adopt an evaluation system that consists of multiple performance measures. For instance Kaplan and Norton (1992) suggested implementation of a BSC that supplemented financial measures with non-financial measures that reflect the strategic objectives of the organizations.

For a performance evaluation system to be effective, organizational rewards must be linked to performance metrics. That is, compensation must be clearly tied to organizational objectives and negotiated targets. However, an evaluation system based on multiple performance metrics poses several challenges: First, it is likely to contain many financial and non-financial measures from various categories (Ullrich & Tuttle, 2004). While each one of the measures may be objective and quantifiable, combining these measures into an overall measure is by no means an easy task or a necessarily objective task. Second, typically no explicit weights are placed on each measures — most often it is left up to the individual manager to assign specific weights (either implicitly or explicitly) when combining the measures into an overall performance measure. Third, employees may not always be rated on identical performance measures. When comparing two employees, the evaluator has to contend with the relative importance of common measures and unique measures. In summary, while the performance evaluation system attempts to align performance measurement with the strategic goals of the organization, it is by no means a simple objective task. It is frequently subjective and nearly always complex. Using a large number of performance measures, separately processing, weighting and combining them into a single overall evaluation is complex and "cognitively very difficult" (Bonner, 1994).

When faced with cognitively difficult tasks, individuals are known to resort to various coping mechanisms that help simplify the decision process. Coping mechanisms include the use of affective and cognitive heuristics (Anderson, 2003, Folkman, Lazarus, Dunkel-Schetter, DeLongis, & Gruen, 1986; Kida, Moreno, & Smith, 2001). Such heuristics can systematically influence the subjective evaluation of performance

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