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Hiring and escalation bias in subjective performance evaluations: A laboratory experiment

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ABSTRACT

In many organizations the measurement of job performance cannot rely on easily quantifiable information. In such cases, supervising managers often use subjective performance evaluations. We use laboratory experiments to study whether the way employees are assigned to a manager affects managers' and co-employees' subjective evaluations of employees. Employees can either be hired by the manager, explicitly not hired by him and nevertheless assigned to him or exogenously assigned to him. We present data from three different treatments. For all three treatments we find escalation bias by managers. Managers exhibit a positive bias towards those employees they have hired or a negative one towards those they have explicitly not hired. For three treatments we find that managers' and employees' biases are connected. Exogenously assigned employees are biased in favor of employees hired by the manager and against those explicitly not hired.

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1. Introduction

Job performance is one of the key aspects of human resources management and has attracted much attention from researchers and practitioners alike. The importance of job performance, though, is parallel to the difficulty of its measurement and consequently performance assessment is considered one of the most important human resources practices (Judge and Ferris, 1993).

It is obviously vital for an organization that performance assessments are done accurately. In many organizations the measurement of job performance cannot rely on easily quantifiable information. In such cases, supervising managers often use subjective performance evaluations. After many years of performance assessments in many organizations, and hundreds of papers on the topic, researchers and practitioners, alike, are still trying to find out how to achieve accuracy of subjective performance evaluations. The key issue is that subjective assessments give opportunity for factors like interpersonal relationships, likeability, and affect to have an effect on rating accuracy.

In this paper we present the results from a detailed experimental study about *escalation bias* in the evaluation of employees as a consequence of hiring decisions. More specifically, we study whether the way employees are assigned to a manager affects managers' and co-employees' subjective evaluations of employees. Escalation bias, sometimes referred

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to as "irrational escalation of commitment", is a term frequently used in psychology, sociology, and finance to refer to a situation in which people who have initially made a decision that may be rational, follow it up with an irrational one in order to justify the initial decision and thus make themselves feel better about it. Staw (1976) was one of the first to point out that once a decision is made in our minds, we also mechanically make a psychological commitment to that decision, so that further decisions on the same matter are biased towards the initial decision.[1] In the context we study, escalation bias consists in the tendency of managers who have made particular hiring decisions to subsequently evaluate employees who they hired in a biased manner compared to a professionally done evaluation. We will analyze the presence of both positive and negative escalation bias, where the first term refers to an excessively positive evaluation of hired employees and the second to an excessively negative evaluation of employees who were not hired.

We use a lab experiment as our research tool, because it allows us to control for certain factors in a way that otherwise would not have been possible.[2] In our stylized setting an employee can be assigned to a manager in three different ways. Employees can either be hired by the manager, explicitly not hired by him and nevertheless assigned to him or exogenously assigned to him. We study whether the way employees are assigned to a manager affects managers' and co-employees' subjective evaluations of employees.

During the experiment all participants in the role of the employees have to perform a task, consisting in reading a short two-page business case study and answering two textual questions on it. The employees' task does not have a quantifiable correct answer and thus warrants a subjective evaluation. There is not just one strict way to do things. The employees know that each of them is given the exact same case study which is going to be evaluated by the manager and their peers, the other two employees in their company.

A key feature of our experiment is that, in addition to the evaluation by managers and fellow employees, we include the evaluation of the task by three expert outside evaluators. These outside evaluations yield a baseline to which managers' and fellow employees' evaluations can be compared. Deviations of participants' evaluation from the evaluations of the experts are the basis for our measurement of biases.

There are two early precursors of our study. Bazerman et al. (1982) present data from a class-room experiment in which participants were given the role of vice president of a large retail company with numerous stores. Then participants in the experimental group were asked to make a promotion decision to the position of manager of one of the stores, by choosing between three fictitious internal candidates for whom fictitious performance data was provided. After this participants were given new fictitious data that suggested that the promoted manager was not performing well.

On the basis of this information participants in the experimental group had to, for the manager they had promoted earlier, (1) recommend an increase in pay and bonuses, (2) make an evaluation of the manager's potential for being promoted, (3) forecast potential sales and profitability. In the control treatment, participants were informed that the decision who to promote was completed by a predecessor. They were given the same performance information on the manager and were assigned the same tasks (1), (2), and (3). The results are consistent with escalation bias. Participants that had earlier chosen to promote certain employees were much more likely to later give them higher pay increases, give higher evaluations on managers' potential, and forecast higher sales and profits than managers in the control treatment. Importantly, the experiment involved no incentives. Hence, the bias involves no costs for the evaluators and the evaluated employees.

Bazerman et al. cannot really distinguish between a positive and a negative escalation bias, since the direct comparison between managers involved in hiring and not involved in hiring can not disentangle whether the first kind of manager is too positive or the second too negative. Schoorman (1988) followed up on this study, with a field experiment conducted within a real large public sector organization in which the presence of a positive bias could be separated from that of a negative bias in a particular way. Supervisors were asked to do performance evaluations of their real employees. The experiment involved supervisors evaluating (a) employees who they had not participated in hiring, (b) employees they had participated in hiring and where they did agree with the decision and (c) employees that they had participated in hiring and where they did not agree with the decision. The evaluations were done based on a performance appraisal instrument of actual performance. Comparing (a) and (b) Schoorman finds a positive escalation bias and comparing (a) and (c) he finds an, albeit weaker, negative escalation bias. As in Bazerman et al. participants' decisions had no payoff consequences for anybody involved and, in addition, there was no outside standard of comparison for the evaluations.

We think that the possible presence of escalation bias in performance evaluations is an important problem for companies and other organizations and that, therefore, the issue deserves a new more detailed study. We highlight four important aspects of our study that go beyond the two seminal studies just discussed. First, in our experiment decisions will have payoff consequences for participants. Here we follow standard practice in experimental economics. Second, we present data from three different treatments in which we vary relevant factors of the environment to test for the robustness of behavior. In particular, we will vary the incentives and the experience of managers. Third, we not only analyze managers' evaluations of employees, but also peer-to-peer evaluations, that is, employees' evaluations of other employees. This will allow us to

[1] Escalation bias bears some relation to another cognitive bias, confirmation bias, which is the tendency to search for, interpret, or recall information in a way that confirms one's beliefs of hypotheses. It is, indeed, related to escalation bias, since the escalation of commitment is (presumably) based on a biased reading of the case study responses of employees of different types. In our experiment we directly observe whether or not there are biases in evaluations, but not how these reactions come about.

[2] Falk and Heckman (2009) contains an interesting discussion of the merits of lab experiments.

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