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Reluctant to change: Self-enhancing responses to diverging performance measures ☆

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Abstract

Although there is extensive evidence that past performance influences the propensity to make changes, research on how decision makers respond to diverging performance measures has been sparse. This paper addresses this gap in an experimental and a field study in which we examine how decision makers respond to the ambiguity introduced by two diverging performance indicators of unequal importance. Both studies suggest that decision makers respond to diverging performance indicators in a self-enhancing manner. Decision makers gave importance to a secondary performance indicator only when it helped them maintain a sense of positive performance, that is, when a secondary performance measure was high and a primary performance measure was low. The results suggest that, in contexts in which decision makers are likely to experience diverging performance indicators, perceptions of success and the associated reluctance to make changes might be more pervasive than is often thought.

Keywords: Decision making; Self-enhancement; Change; Performance feedback; Ambiguity

USA Today Interviewer, Ron Insana: Mr. Eisner, the last time Disney faced a takeover threat, corporate raiders, unhappy board members, and a flagging stock price was 1984, and you were brought in to fix things. Why shouldn't that type of change happen now?

Eisner: In 1984, the studio did not come off the biggest year in the history of the motion pictures business. In 1984, the company did not have the leading sports network, ESPN. In 1984, the company did not have theme parks all around the world. In 1984, the company did not have international operations with the Disney Channel. I could go on. The position of the company has never been stronger. The balance sheet has never been stronger. Cash flow has never been stronger. The only relationship between 2004 and 1984 is that they both have fours in them. (Insana, 2004)

Introduction

This excerpt from an interview with Disney's Chief Executive Officer (CEO) reflects two insights that deserve the critical attention of researchers interested in the relationship between performance and change. First, the excerpt recognizes that the availability of multiple and diverging performance measures contributes to the difficulty in determining unequivocally whether an organization is performing well or poorly. While the interviewer refers to performance indicators that suggest that Disney is experiencing a performance crisis, Eisner calls attention to outcomes that suggest that the position of the company has never been stronger. Second, the excerpt recognizes that the way in which people interpret the ambiguity created by diverging performance indicators is likely to affect their propensity to make

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changes. While the interviewer asks why the slump in performance should not lead to the same radical changes experienced by the company in the past, Eisner does not see a crisis and probably does not see the need to replace himself.

Understanding how the ambiguity introduced by the availability of diverging performance indicators influences the relationship between performance and change is the focus of this paper. Specifically, we address the following questions: Are decision makers biased in their evaluation of diverging performance measures? Do they give greater attention to indicators signaling success or to indicators signaling failure? Does a biased evaluation of diverging performance measures affect their propensity to make changes?

The availability of multiple and weakly linked performance indicators is a pervasive feature of organizations. Organizational members routinely assess and are assessed using multiple indicators. Furthermore, because the function of multiple performance indicators is to capture differing aspects of performance, these indicators are often contradictory (Meyer, 2002; Meyer & Gupta, 1994). Business Week, for example, ranks companies in the Standard & Poor's (S&P) 500 by using eight criteria of success that often diverge considerably (Business Week, 2004). Similarly, Research and Development managers are aware that various indicators provide differing information regarding not only the performance of their unit but also the performance of individual engineers and scientists (Hauser, 1998).

Surprisingly, the existence of multiple performance indicators is often overlooked in studies of the effect of performance on change. There is evidence both in experimental (e.g., Audia, Locke, & Smith, 2000; Lant & Montgomery, 1987; Marinova, 2004) and field settings (e.g., Boeker, 1997; Greve, 1998; Lant, Milliken, & Batra, 1992) that performance above a reference point (hereafter also called high performance) decreases the probability of change, whereas performance below a reference point (hereafter also called low performance) increases it. Most of this evidence, however, obscures the potential effect of diverging performance indicators because researchers select a priori the performance measure thought to be critical to the individuals or the organizations under investigation.

Despite the lack of empirical studies, two theoretical perspectives suggest conflicting predictions on how decision makers respond to the ambiguity introduced by diverging performance indicators. The first perspective, associated with the behavioral theory of the firm (Cyert & March, 1963; Greve, 2003a) and control theory (Carver & Scheier, 1981; Klein, 1989; Lord & Levy, 1994; Miller, Galanter, & Pribram, 1960; Vancouver, 2005), suggests that organizational members resolve the ambiguity arising from conflicting performance measures by giving greater importance to those that fall below the reference point. According to this view, low performance measures receive greater attention because individuals are generally motivated by the desire to reduce negative discrepancies between current outcomes and desired outcomes. The second view, associated with research on self-enhancement (Johns, 1999; Sedikides & Strube, 1997; Taylor & Brown, 1988), predicts that individuals will give greater importance to performance measures that are above the reference point. This occurs because individuals tend to be motivated by the desire to protect their self-image from negative evaluations. This literature suggests that, under conditions of ambiguity, such as when information can be interpreted in different ways, individuals display a tendency to engage in self-assessments that are self-serving (Dunning, Meyerowitz, & Holzberg, 1989; Farh & Dobbins, 1989; Huber, 1991).

In this paper, we draw on these two views to investigate how decision makers respond to diverging performance indicators in an experimental and a field study. Because both perspectives assume that decision makers are biased in the manner in which they interpret diverging performance measures, we also highlight how these two perspectives differ from an "unbiased" view. This alternative perspective highlights the possibility that, when confronted with diverging performance indicators, individuals combine multiple measures into a single measure of performance using weights that reflect the importance of each performance indicator and are not changed depending on whether the performance is high or low.

How decision makers respond to diverging performance measures

Behavioral theory of the firm and control theory

Both the behavioral theory of the firm (Cyert & March, 1963; Greve, 2003a) and control theory (Carver & Scheier, 1981, 1998; Klein, 1989; Lord & Levy, 1994; Miller et al., 1960; Powers, 1973; Vancouver, 2005) seek to explain how performance feedback influences behavior. The behavioral theory of the firm focuses in particular on how performance influences variations in a firm's propensity to change and to innovate. Control theory examines the effect of feedback on a broad range of individual behaviors as well as cognitive and affective processes. Despite the differences in the domains to which these theories are applied, and despite the fact that the findings from these two literatures are rarely integrated, these theories seem to converge in their predictions of how individuals generally respond to the ambiguity introduced by diverging performance measures.