

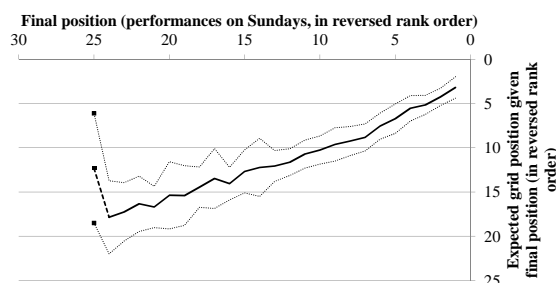
Inference from Extreme Failure in Organizations

Individuals are often mistakenly blamed for failure caused by shocks from the environment. Mistaken attributions to individual dispositions are explained as the result of cognitive biases or strategic misrepresentation. We develop a different perspective that focuses on the risks of discounting individual dispositions when one is uncertain whether others also do so.

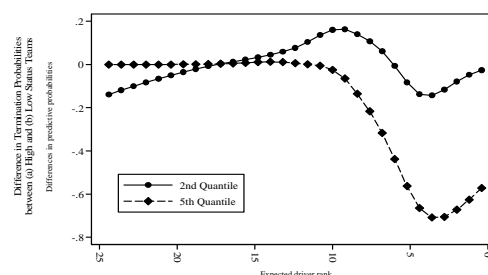
Formula One Racing: Drivers with the lowest level of performance do not have the lowest expected skill. Nevertheless, drivers with the lowest level of performance are the ones most likely to get fired, except by teams with high status.

Experiments: Decision-makers can learn that failure does not signal poor skill, but decision-makers are only willing to hire poor performers if they have been primed with high power.

Overall Results: Illustrates the difficulties of acting upon sophisticated inferences when one is uncertain about how others think.



The Average Position in the Saturday Race (a Proxy for Skill) as a Function of the Position in the Sunday Race, based on 1996-2012 F1 Racing results (6,375 observations from the 405 races).



The difference in the predictive probability of driver terminations for (a) high status teams and (b) low status teams for two levels of failure (2nd and 5th quantile of failure) and for different values of the expected driver rank (results are based on data collected from 1996 to 2012).

Implications:

Swift response: as advised by practitioners and academics, can be **sub-optimal:** Rational model of irrational sluggishness to extreme failures.

Pluralistic Ignorance: Even sophisticated actors, who do not suffer from cognitive biases, may behave as if they did suffer from a cognitive bias because they want to behave in a way consistent with their beliefs about the inferences of others.