Boosting self-esteem can backfire in decision-making

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Smart business leaders understand that confidence affects decision-making and ultimately a company's earnings. But giving employees positive feedback in the hopes of promoting better decisions sometimes can backfire, suggests new research from the psychology department and the Kellogg School of Management at Northwestern University and the London Business School.

Some types of positive feedback actually can escalate perceived threats to the ego and increase the need to prove that a questionable decision was the right one.

Across several studies, the research examines how boosting self-esteem – whether contemplating one's own accomplishments or receiving positive feedback from others -- affects the face-saving impulse to justify and recommit to decisions whose outcomes seem dubious at best.

The specifics of the positive feedback or self-affirmation that occurs at a critical juncture of decision-making are key to whether a person recommits or walks away from a questionable decision, the studies suggest.

The research will be published in an article titled "The Promise and Peril of Self-affirmation in De-escalation of Commitment," currently in press at the journal *Organizational Behavior and Human Decision Processes* (published by Elsevier).

In one study, participants, acting as senior managers of a large investment bank, received positive feedback that emphasized how rational they were. Despite being positive, this feedback also closely related to a decision they made to hire someone who was not performing well. Those “senior managers” overwhelmingly recommitted themselves to the initial hiring decision and recommended spending additional time and money training that person, rather than simply acknowledging the poor decision and cutting their losses.

The esteem-boosting feedback backfired, the research suggests, because it was so closely linked to the particular skills that should have prevented the questionable decision in the first place.

“The more that people’s feelings of self-worth are wrapped up in a poor decision they’ve made, the greater their impulse will be to justify it in some way,” said Daniel C. Molden, assistant professor of psychology at Northwestern and one of the researchers.

Research collaborators and co-authors of the article are Niro Sivanathan, lead author and doctoral candidate in management and organizations at the Kellogg School of Management at Northwestern; Molden; Adam Galinsky, Morris and Alice Kaplan Professor of Ethics and Decision in Management at Kellogg; and Gillian Ku, assistant professor of organizational behavior at the London Business School.

In contrast to the outcome of decision-relevant feedback, study participants who received praise for skills unrelated to the questionable decision (e.g., creativity or innovation) or more global affirmation of positive qualities were less likely to recommit to the decision.

In another study, participants acting as chief financial officers had to revisit an earlier decision in which they had allocated $10 million of research and development (R&D) funding to a division of the corporation that they had determined would bring the greatest benefit to the company.

After learning that their chosen division had performed poorly, they were then given an additional $20 million in R&D money that could be distributed between multiple divisions in any proportion they deemed fit. Those who tended to already possess a global sense of high self-esteem, compared to those with low self-esteem, decided to not throw good money after bad and did not reinvest as much in the poorly performing division.

In contemporary organizational life, many people feel threatened by their poor decisions and end up escalating their commitment to them, wasting additional time and resources and creating even worse outcomes, the studies suggest. The research provides a framework for how organizations might most effectively bolster their employees' self-esteem as well as the bottom line.

“Our research indicates that a supervisor could make a problem even worse when he or she tries to restore the confidence of, say, the finance division by reminding everyone that they are skilled analysts at the same time the current allocation strategy is bleeding money and is in need of reassessment,” said Kellogg's Galinsky.

Such employees are likely to only feel more threatened by the feedback and recommit to the failing strategy in the hope they could prove that they were right all along.

“But positive feedback that generally affirms how valuable the employees are to the company could go a long way in alleviating costs to individuals and organizations that result from throwing good time and money after bad,” Galinsky added.

With the present volatility of the stock market, findings of the research have broad implications. “There always are some people who will continue to hang on to stocks that are tanking in the belief that their judgment will be vindicated in the end,” Molden said. “Our research suggests that these are more likely to be the people who take pride in being expert analysts or who have received lots of accolades for past investment success.”

The challenge is to instill confidence in people so they can change, rather than justify, the course of a failing strategy, concluded lead author Sivanathan.

“Our work offers organizations a framework for systematically leveraging self-affirmation processes so that people will be less likely to recommit to decisions not producing optimal results.”

Source: Northwestern University

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