

Oscar Munoz (Executive)

Why prizewinning chiefs risk a swift fall from grace

Statistical quirks mean outstanding performances tend to be shortlived

Undercover Economist



YESTERDAY by: **Tim Harford**

With hindsight, the timing was awkward. PRWeek had barely engraved Oscar Munoz's name on the trophy before the chief executive of United Airlines and Communicator of the Year 2017 was engulfed in a spectacular [public relations crisis \(https://www.ft.com/content/e752feec-20f3-11e7-a454-ab04428977f9\)](https://www.ft.com/content/e752feec-20f3-11e7-a454-ab04428977f9). The airline had summoned the police to throw David Dao out of the seat he had paid for; the police broke his nose and knocked out two teeth; and Mr Munoz's first response was to criticise Mr Dao and apologise to the other passengers. At least the PRWeek award has a

glorious future as the answer to a pub quiz question.

I'm not even sure this qualifies as the award that turned out to seem the most ridiculous. The American Institute of Architects honoured the Kemper Arena in Kansas City with a national honour award, and then held its annual convention there in 1970. Also, the roof of the

convention there in 1979. Alas, the roof of the arena collapsed a few hours after the architects' convention left the site.

Tempting as it may be to mock the judges who hand out such prizes, having a more objective benchmark for achievement does not confer immunity. Just ask [Claudio Ranieri \(https://www.ft.com/stream/peopleId/TnNoZWluX1BOX1Nwb3Joc18yMDA5XzEwXzRfOTM4Njk=-UE4=\)](https://www.ft.com/stream/peopleId/TnNoZWluX1BOX1Nwb3Joc18yMDA5XzEwXzRfOTM4Njk=-UE4=), the football manager who masterminded Leicester City's underdog triumph in the English Premier League last year. As soon as the points dried up, Mr Ranieri was sacked.

Why does life seem to deliver such strange reversals? The first explanation is simple but easy to miss: there are a lot of awards in the world. Many of the people or organisations notable enough to make news when they screw up will also be notable enough to have won a prize that will prove embarrassing.

The second explanation is more subtle: for statistical reasons, outstanding performances tend to be followed by something less impressive. This is because most performances involve some randomness. On any given day, the worst observed outcomes will be incompetents having an unlucky day and the best observed outcomes will be stars having a lucky day. Observe the same group on another day and, because luck rarely lasts, the former outliers will not be quite as bad, or as good, as at first they seemed. This phenomenon is called "regression to the mean".

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exceptionally high, the accident rate is likely to fall. But a garden gnome in the same place will also seem to save lives. That is because exceptionally high accident rates are partly the result of bad luck. While the speed camera may encourage safer driving, unlucky driving will tend to disappear whether it is treated with a camera or with a gnome.

[Daniel Kahneman \(https://www.ft.com/content/a7bc7000-be2f-11e6-8b45-b8b81dd5d080\)](https://www.ft.com/content/a7bc7000-be2f-11e6-8b45-b8b81dd5d080),

psychologist and winner of the Nobel memorial prize in economics, was advising the Israeli air force when he noted a memorable example of how regression to the mean can mislead us. A flight instructor told Mr Kahneman that when the instructor praised cadets for a skilful landing, they usually did worse next time; when he bawled them out for clumsiness they tended to improve. The instructor concluded that harsh criticism worked; Mr Kahneman pointed out that a more likely explanation was sheer chance.

“Because there is regression to the mean, it is part of the human condition that we are statistically punished for rewarding others and rewarded for punishing them,” Mr Kahneman wrote. PRWeek now knows what he meant.

Regression to the mean probably explains why many award winners subsequently disappoint. And the disappointment will be spectacular if

some people are taking bigger risks than others. The most impressive performance may combine skill with luck. In a financial market — or a casino — the easiest way to become an outlier is to make a big bet. Unfortunately, there is no way to be sure whether you will be an outlier on the upside or the downside. Treading a different path is a good way to look spectacularly right, or spectacularly wrong — or, given enough time, both.

While randomness can explain much, hubris may also play a role. A few years ago, the economists Ulrike Malmendier and Geoffrey Tate [examined \(https://www.ft.com/content/3ec5a0bc-2d73-11de-9eba-00144feabdco\)](https://www.ft.com/content/3ec5a0bc-2d73-11de-9eba-00144feabdco) what happened to companies whose chief executives won accolades such as Forbes's "Best Performing CEO" or BusinessWeek's "Best Manager". Ms Malmendier and Mr Tate picked a statistical control group of nearly-men and nearly-women who might have been expected to win an award, but did not.

Like the near-winners, the winners ran large, profitable companies. But those run by the winners did far worse in the three years following the award, lagging behind the near-winners by about 20 per cent. The prizewinning CEOs nevertheless enjoyed millions of dollars more in pay. They were also more likely to write books, accept seats on other corporate boards and improve their golf handicap.

Winning a prize may strengthen the hands of already dominant CEOs, enabling them to extract more money from shareholders and distracting them with the opportunity to write self-congratulatory books. Right now, I doubt that anyone is rushing to offer Mr Munoz an advance for his management insights.

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