

# Good decision vs. good results: Outcome bias in the evaluation of financial agents

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# How do clients evaluate their financial agents?

# Setup



## Financial Agents

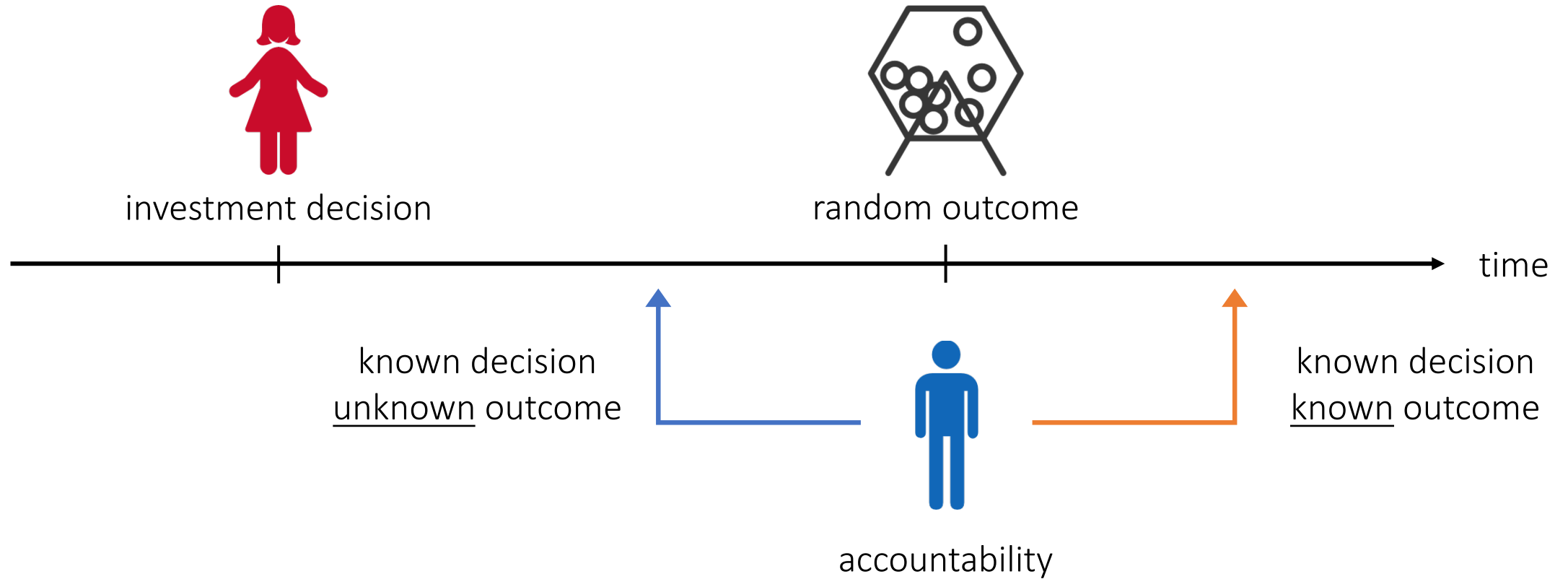
- take investment decisions on behalf of their clients
- are supposed to act in their clients' best interest
- their decisions involve risky outcomes



## Clients

- bear the consequences of their agents' decisions
- can hold their agents accountable

# Accountability



# Outcome Bias

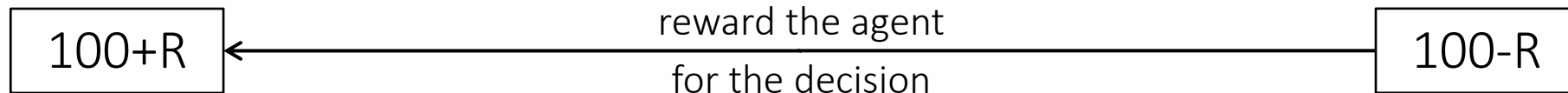
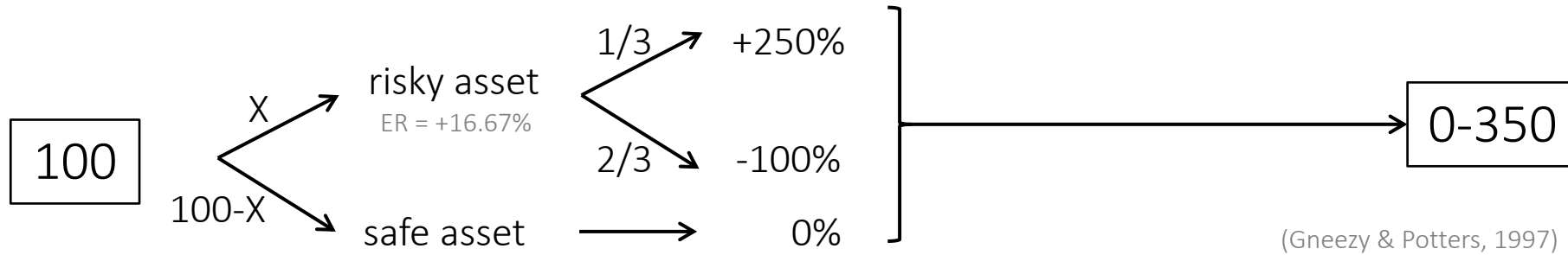
Evaluators tend to take information about the outcome into account when evaluating the quality of a decision.

different information sets



good results can derive from bad decisions and vice versa

# Experiment 1: Design



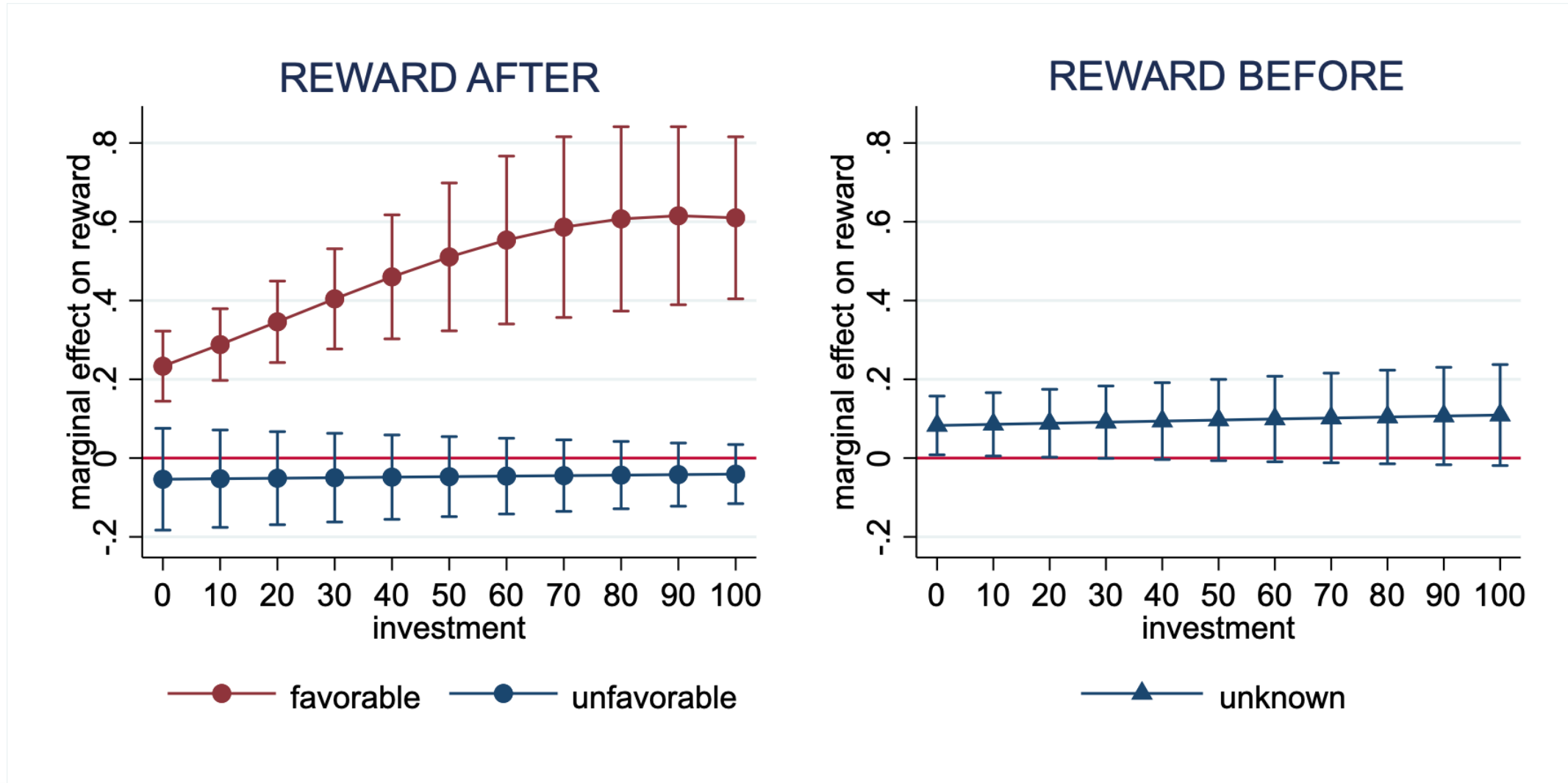
*control*

reward *BEFORE* outcome is known  
(client only knows risky investment  $X$ )

*treatment*

reward *AFTER* outcome is known  
(client knows  $X$  and the outcome)

# Experiment 1: Results



# Experiment 1: Results

- irrelevant outcome information is taken into account
- relevant information is not used even if it is the only information

## Outcome Bias or...

...income effect?

...social preferences?



## Experiment 2

- unincentivized vignette format
- scenario identical to the task in Experiment 1



## Experiment 2: Design

„The financial advisor is tasked to allocate \$10,000 between a safe and a risky asset for the participant.“



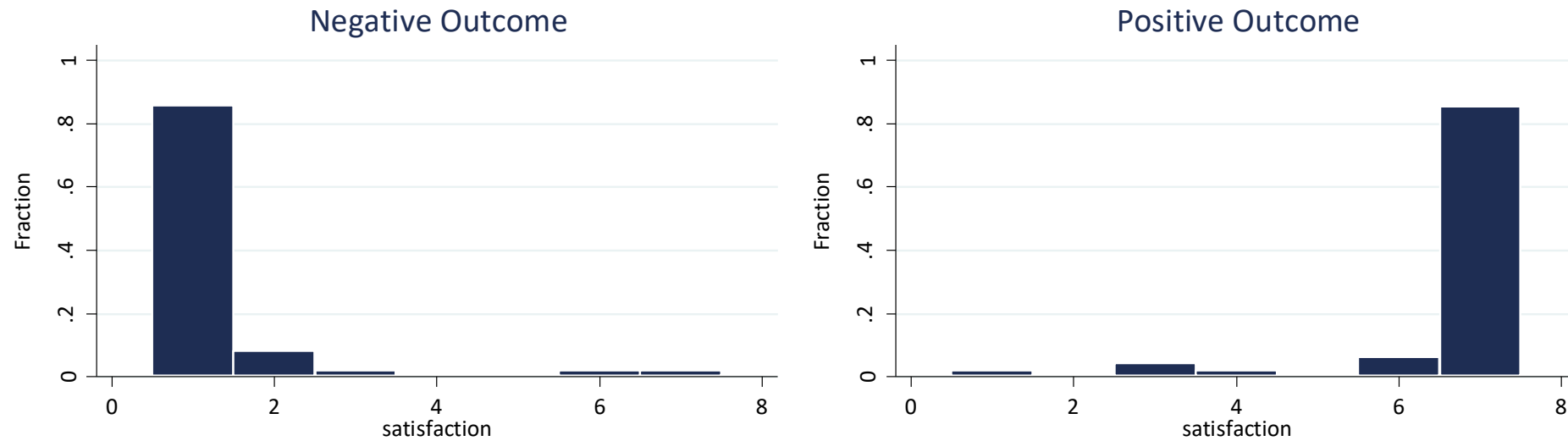
Participants learn about the decision (and the outcome).



Participants indicate their satisfaction with the decision (and the outcome) on a 7-point Likert scale.

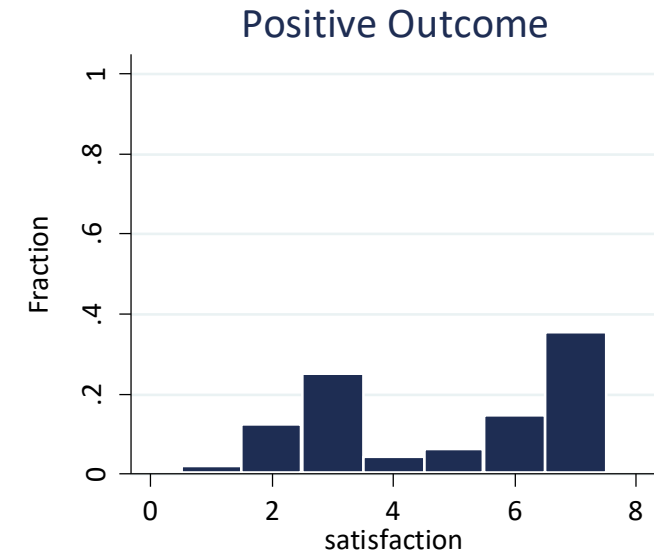
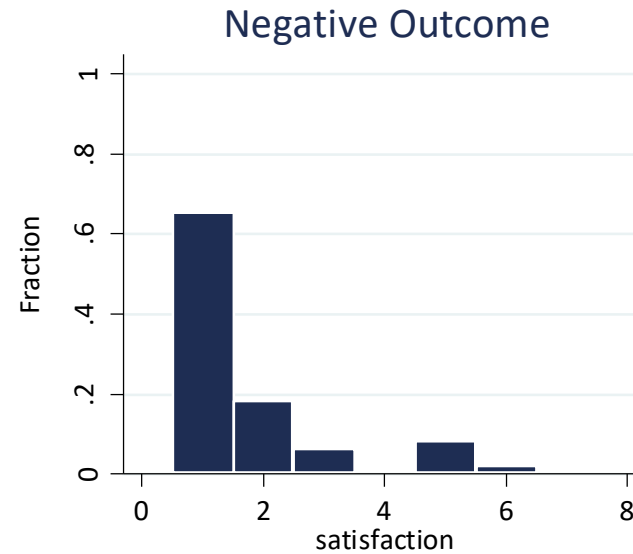
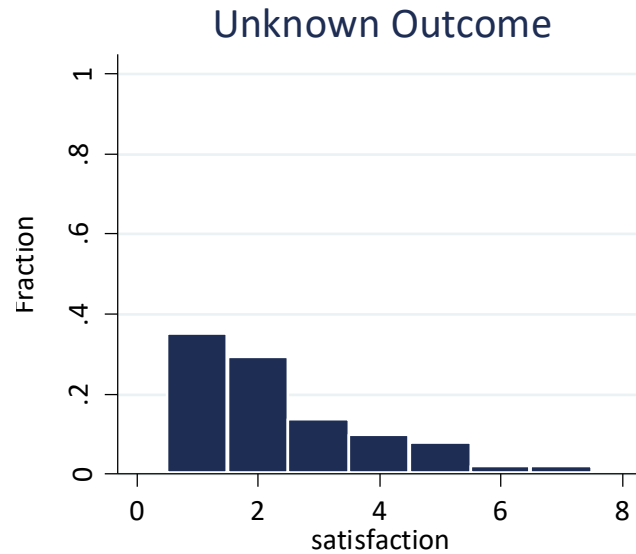
# Experiment 2: Outcome satisfaction

## High Investment



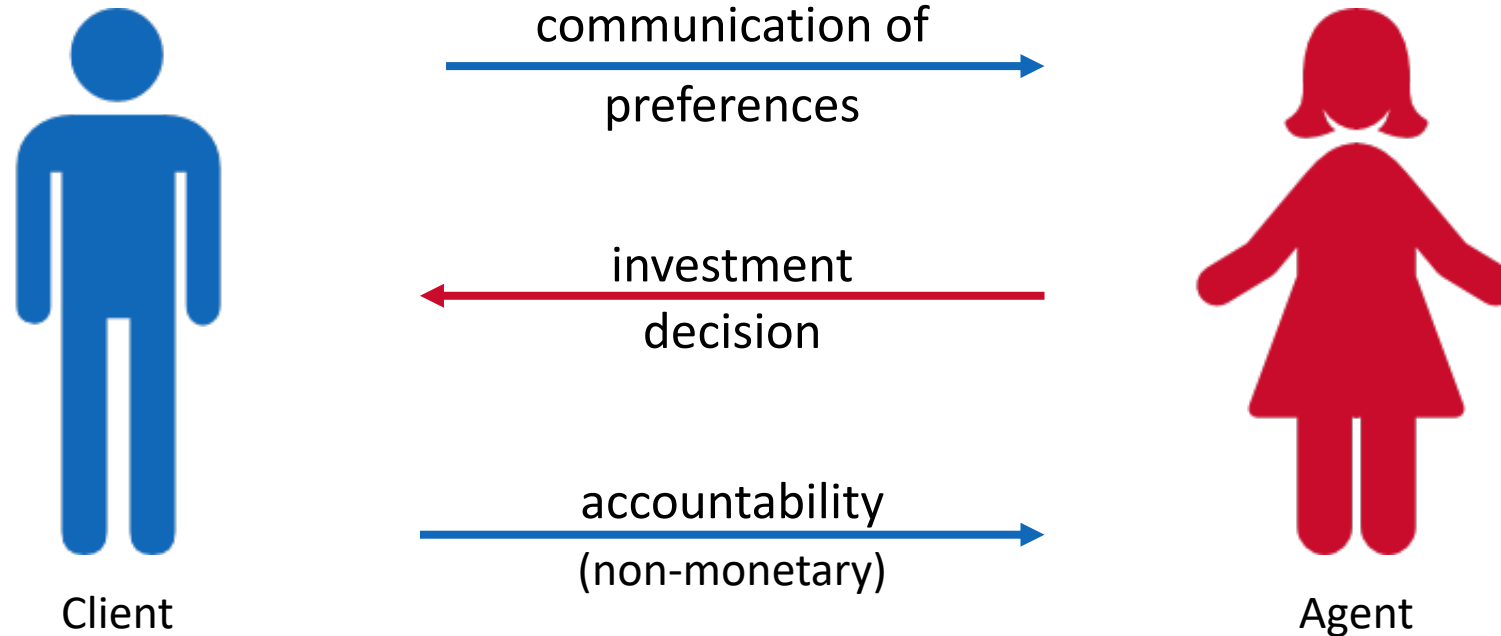
# Experiment 2: Decision satisfaction

## High Investment



- Outcome knowledge affects both outcome and decision satisfaction
- positive bias: effects of good outcomes are larger than those of bad outcomes

# Experiment 3: Design



Benchmark for accountability:

Did the agent implement the client's preferred investment profile?

# Experiment 3: Results

		Client's investment preference...		
		implemented	not implemented	difference
Outcome	good	1.6	1.1	0.5*
	bad	0.6	-0.1	0.7**
difference		1.0***	1.2***	

*Notes:* The table shows the average satisfaction of clients with the investment decision of their financial advisor separated by the agent following or not following the investment profile and by outcome success. The scale is -2 to +2 for *very dissatisfied* to *very satisfied*. Statistical significance is based on two-sample Mann-Whitney-U tests. \*\*\*/\*\*/\* indicate significance at 1%/5%/10%.

# Conclusion

## Outcome bias in the evaluation of financial agents

- exists in settings with a transparent and observable decision processes
- affects decisions for monetary rewards, as well as non-monetary judgements
- is more pronounced after good outcomes than bad ones
- is not driven by social preferences or wealth effects
- occurs based on objective and subjective evaluation criteria

# Thank You

Paper:

König-Kersting et al. (2020) *Theory and Decision, forthcoming*

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