Speaker: **Chengwei Liu (ESMT Berlin)**

Date: **Monday, 09.05.2022**

Underdogs and One-hit Wonders: When is Overcoming Adversity Impressive?

Abstract:

Success tends to increase and failure tends to decrease the chances of future success. We show that this impact of past outcomes can change how diagnostic success or failure are about the competence of an individual or a firm. Succeeding under adverse circumstances is especially impressive when initial failure reduces the success chances more for low quality agents than for high-quality agents. Succeeding after initial failure (a successful underdog) can also indicate higher expected quality than succeeding twice if initial success increases the success chances of all agents to a high level. The outcome after success can be especially informative about quality, implying that failing after an initial success (a one-hit wonder) indicates lower quality than failing twice does. We find evidence consistent with these predictions in data on Canadian professional hockey players and on data from the Music Lab experiment: initial failure combined with eventual success is associated with high quality. The results have implications for understanding when failure should be attributed to the person in charge or to the situation, when underdogs and individuals who overcame adversity are especially impressive, and for understanding when a naïve "more is better" heuristic for evaluating performance can be misleading.