COMMENT ON CANICE PRENDERGAST'S "A THEORY OF 'YES MEN'"

WALTER BLOCK

Prendergast (1993) has discovered a new "market failure": In the market, "subordinates have an incentive to conform to the opinions of their superiors" (p. 757).

She bases this on three assumptions. First, "the profitability of most organizations depends upon how cheaply they can collect information." Therefore, for any given level of quality, the cheaper the better. Second, "the worker [must] be provided with incentives to collect information" (p. 757) so as to overcome his reluctance to engage in such distasteful activity. Third, there is no objective information against which employee efforts can be measured.

If these three conditions hold, they give rise, in Prendergast's view, to the "yes-man" phenomenon. Here, the worker, instead of ascertaining the facts of the case—that is, the profitability of a new project, the desirability of new machinery or new hires, or the evaluation of a subordinate's productivity—tells the manager what he thinks the manager wants to hear.

This thesis is a more-than-passingly curious one, as the uninitiated would have supposed that any "yes-man" tendency would be summarily dealt with by the market through the imposition of bankruptcy, stock sell-offs, or "hostile" takeovers.[1] After all, profits are earned in accordance with consumer satisfaction, and this can hardly be accomplished if employees, instead of ferreting out accurate information so as to produce high-quality goods and services at low prices, are busily engaged in "yessing" their managers.[2] Management

WALTER BLOCK is the Harold E. Wirth eminent scholar endowed chair in economics at Loyola University. Unless otherwise identified, all page notations refer to Prendergast (1993).

[1]Where is Michael Milken? Our need for him has never been more desperate. See Manne (1966a,b); see also Block and McGee (1989).

[2]This applies, for example, to Bill Gates, president of Microsoft, one of the most profitable corporations in U.S. history. Karen Fries, a top executive, describes personal meetings with Gates: "'It's like going to a haunted house. Scary, but fun. Bill loves people who

cannot succeed unless it "makes the customer an offer he cannot refuse." If instead of helping the managers do this, workers tell them what they think they want to hear, this will, at the very, least function as a competitive disadvantage. It therefore behooves us to delve into the reasoning of Prendergast, to determine just how she is led to such a counterintuitive supposition.

There is no problem with the first of her three assumptions. The importance of collecting accurate information in an expeditious manner has a strong pedigree within the profession.[3] Nor can there be any serious objection to the second assumption. Work has disutility, and the principle-agent problem must somehow be overcome. But the third presents difficulties. Why should there be no objective information against which workers' efforts can be evaluated? Or, to express this in terms more amenable to economic analysis, where is the evidence that the costs of unearthing such information would be more costly than the losses of "yes-manning"?

Prendergast offers us three reasons why, in effect, it would be too costly for the manager to "wait and see if the project is profitable before deciding how well to reward the worker." More explicitly, she specifies what the problem is with trying "to obtain more objective information on the true parameter before rewarding the worker" (p. 757).

First, it may be "difficult" to "obtain an objective measure of the worker's input" (ibid.). But this is just like estimating the marginal-revenue product of actual and potential employees. Of course it is difficult to do: there are joint products; productivity depends upon how the worker "fits in" with others; it is impossible to keep one's eye on a given person all day long; etc. But this challenge occurs in every nook and cranny of the economy. Why this obstacle should be elevated to the status of a market failure is not at all clear. Nor is the solution theoretically very formidable: those entrepreneurs who can carry out such tasks prosper; those who cannot, do not.

Second, some amount of time may pass between the worker's task being completed and the reward (or penalty) being imposed. This calls for "commitment" and "institutional memory" (ibid.). Again, this does not seem to be an insurmountable barrier. There can be no denying that we live in an imperfect world; it simply does not pay to memorize trivial details. But we are vouchsafed no reason to believe that most firms do not set their rewards and penalties at least roughly in accord with the actual accomplishments of their employees—that they do not "remember" who was naughty and who was nice when it comes time, much later, to hand out bonuses, raises, and promotions.

---

stand up to him. He hates yes people.' At Microsoft, she adds, everything depends on how well you 'defend your point of view'" (*Newsweek*, 11 July 1994, p. 41).

[3]See Hayek (1948), Stigler (1961), Kirzner (1973), Klein (1996, 1999), Foss (1994), Lewin (1999).

When firms do not set wages and perks at least roughly comparable to productivity, labor mobility tends to push the market toward equilibrium in this regard. The worker who feels unduly belittled can leave; the firm that feels cheated by the employee can fire him. There is always a passage of time between work and reward, moreover. What makes this case special?

Third, Prendergast posits some sort of radical unpredictability[4]: at the time the worker made his decision, he had no way of knowing whether he was right or wrong, because there was "noise." Project profitability, for example, depends upon so many other people and phenomena (e.g., the weather, technological change, etc.) "in a way that cannot be predicted when the initial inference is made" (pp. 757–58). But Knightian uncertainty is a concomitant of all entrepreneurial activity. We must again ask, why is this case so special? No one can ever predict for sure; if they could, the most extreme versions of rational expectations would be true, and there would be no need for a market at all.

But even these extreme assumptions will not yield the conclusion desired by this author. If there are one hundred workers, each making predictions with no ostensible justification at the time they were made, still, some will do better than others. These are the ones who will tend to be better rewarded by the marketplace.

Further, there is always the expedient of manufactured prediction. A firm interested in the ability of its labor force can very cheaply administer a test[5] to its workers, where the correct answers are known in advance only to the manager.[6] Under the conditions posited by Prendergast, the management would have every incentive to hide[7] its true opinions. In this way, it could nip "yessing" in the bud.

In any case, it is imperative for the Prendergast thesis that there be "no obvious metric by which to measure whether a worker's report is correct" (p. 758).

[4]See Lachmann (1977, 1986) for an elaboration of the thesis that the future is inherently unknowable.

[5]Certainly, corporations go to great lengths to attempt to measure performance, and reward it accordingly, lest they suffer an excessively high quit rate precisely for those employees they wish to keep on the basis of these exams. If "yesmanning" was so pervasive, firms would hardly engage in such activities. For more on this see Brickley (2001). I owe this point to an anonymous referee.

[6]It may be difficult for the orchestra conductor to know which instrumentalists are carrying their full weight and which are shirking. After all, during the cacophony of a symphony, it may be difficult to tell one from the other. But if there are problems here, there are remedies, too. First, conductors are hired particularly on the basis of being able to separate the sheep from the goats even when there is a lot of "noise" occurring. Second, he can always ask each member of the orchestra to play by himself, during practice, in an attempt to "objectively measure" the various contributions of the musicians. The various artificial tests of predictive power would be the business analog to the musical case.

[7]Or perhaps even better, falsify them (so as to trap the unwary).

She needs this conclusion in order to explain the rise of "yesmanship." For if there are objective criteria, telling the manager something false in order to butter him up is unlikely in the extreme to be a successful strategy.[8]

She states:

> In the absence of reliable objective measures of performance, firms generally resort to subjective evaluation procedures, where managers compare their own findings to those of their subordinates. When the point of reference for adequate performance is the manager's opinion, an endogenous desire arises for the worker to conform to the opinion of the manager. This arises because the only way to induce the worker to exert effort is by comparing the findings to the manager with those of the worker. (p. 758)

There are problems here. Why is it that firms only "generally" resort to subjective evaluation procedures? Under the assumptions imposed by Prendergast, there is no other alternative but to act in this way. Certainly, she has not left room for any objective criteria. The fact that she falls short of writing consistently with her own theory may perhaps indicate that even she does not fully take it seriously.

Notice, too, the almost imperceptible change from "opinion" of the manager in the second sentence quoted above to her "findings" in the third. Only one of these can be correct. If we are truly in a kaleidic (Lachmannite) world, where the future is absolutely unknowable, then there can only be "opinions" about what is to come, not "findings." To the extent that there are indeed "findings," we have not moved entirely from the real world to one of Prendergast's construction.

Most importantly, there is nothing wrong with yesmanship under Prendergast's unrealistic assumptions! Let us assume with her that there are no objective criteria for correctness in prediction. But let us also take it for granted that the manager is somehow best able to discern things in this fog that are reality[9]—after all, he wouldn't be manager if he didn't have some sort of comparative advantage over his workers. Under these artificial conditions, it is a sign of productivity that the workers be able to anticipate the manager. Under these extreme assumptions, yessing, which is ordinarily counterproductive, becomes, paradoxically, productive.[10]

---

[8]With the exception of cases where the manager is using compliance of his underlings as a consumption good. But in this case, it is the function of the CEO to root out such behavior. And if this somehow fails to occur, there is still the fail-safe market mechanism of lower stock prices, "hostile" takeovers, and bankruptcy.

[9]"In the land of the blind, the one-eyed man is King."

[10]In the case of cooperative music playing, "yessing"—doing exactly what the conductor wants even if this means repressing one's own individual interpretation—is precisely the way to maximize production. The conductor is to the orchestra as the pianist is to the

Prendergast wants to have her cake and eat it too. She gives us such unrealistic assumptions that "yessing" actually becomes productive. Under these assumptions there is nothing left for the worker to do except agree with his boss. It is impossible for "the worker to act honestly" (p. 769) if we interpret "honest action" in its usual meaning so as to obviate the possibility of agreeing for the sake of agreeing. For honesty means telling the truth without fear or favor, whether or not the boss agrees with the truth. But in the artificial world constructed by Prendergast, there is no truth separate and apart from the manager's opinion. On the contrary, it is his views which define truth. That is why it is impossible to "be honest" without "yessing."

There are three main responses to the Prendergast thesis. One, we do live in a rational world where it is possible to predict (even though there are no guarantees of success). Here, the decisions of workers can be objectively evaluated, and rewarded or punished accordingly, even though this cannot be done costlessly. In this model, there is simply no room for the yes man. The market will continually root out this behavior, as it is incompatible with ascertaining the facts on the basis of which consumers can be satisfied.

Two, Prendergast is right: the world (or at least a significant part of it) is essentially causeless; nothing can be predicted; "there is no obvious (or even nonobvious) metric by which to measure whether a worker's report is correct" (p. 758). Here, the only thing to go by is the opinion (not "finding") of the manager. But in this case, it is perfectly "reasonable" to engage in yes-man behavior. This is because of an implicit premise that the boss knows more than the worker and that, therefore, the way to increase productivity is to somehow train the latter into being able to mimic the former. That is to say, "yessing" now, paradoxically, becomes productive.[11]

It is rather disingenuous of Prendergast, therefore, to claim that "the incentive to conform implies inefficiencies . . . and is likely to lead to more centralized decision making than in the absence of the desire to conform" (p. 757). The incentive to conform implies inefficiencies, but only in the real world—the one in which market forces continually grind down all such tendencies. In her artificial world, conformity with the boss does not at all imply inefficiency; rather, the opposite. Nor is it true in the model she has constructed that conformity "will lead" to more centralized decision-making (e.g., the boss will do things his way, and ignore the advice of the workers). Instead, this is logically implied by her model. It follows from the fact that there are no independent

keys; and, just as the last thing the pianist wants is keys with "individuality" that "think for themselves," so too does the conductor strive to promote "yesmanship" amongst the orchestra members. (This, of course, does not apply directly to soloists, an entirely different and more complex matter.)

[11]It becomes productive solely due to the force of Prendergast's unrealistic assumptions.

criteria upon which an opinion different from the managers could possibly be justified.

From this statement, also, it would appear that the desire to conform is exogenous. This is indeed true in the real world, where the market is busily engaged in stamping it out, exactly as it treats all other forms of antiprofitable behavior (shirking, cheating, stealing, etc.) But in the Prendergast world, "yessing" is not exogenous. On the contrary, it again follows from the "fact" that there are no independent standards with which to judge the worker's decision-making. All that can be done in this case is to rely on the manager's opinion—and on the ability of the worker to ferret it out of him and replicate it.

There is a third reply to Prendergast as well.[12] The not-too-implicit implication of her theory is that government intervention is justified in order to eradicate, or at least reduce, the inefficiency of the market failure of yesmanship. After all, given the market-failure literature, to characterize something as a member of that category is to call for the state to come in and fix it.[13] But it is within the bowels of government where the real yes-men problem lies. Here, there is no automatic feedback mechanism of the market to rely upon, to quell any incipient tendencies in the direction of yes-manning. At best they are extraordinarily weak; at worst they are nonexistent.[14] Thus, far from Prendergast being able to make her point that the yes man phenomenon is a market failure, the truth of the matter is that it is a government failure. If market firms rely upon or are involved in yesmanship, they lose money and tend to go bankrupt; if and to the extent that governments become embroiled in this economic virus, the forces for their dissolution are either very much attenuated, or totally absent.

References

Block, Walter, and Robert W. McGee. 1989. "Information, Privilege, Opportunity and Insider Trading." *Northern Illinois University Law Review* 10(1): 1–35.

Brickley, James A., Clifford W. Smith, Jr., and Jerold L. Zimmerman. 2001. *Managerial Economics and Organizational Architecture.* 2nd Ed. New York: McGraw Hill Irwin.

---

[12]This was suggested to me by an anonymous referee. I thank him for it.

[13]See Cowen (1988).

[14]True, the Public Choice School posits that the political process constitutes a feedback mechanism that would be able to ameliorate yes-man tendencies; see on this Buchanan and Tullock (1971), Dauterive and Barnett (1984), Grier and McGarrity (1998), Holcombe (1986), McGarrity and Lloyd (1995), O'Brien and Logan (1989), Sutter and McGarrity (2000), DiLorenzo (1988). The ballot-box vote, however, is a very imperfect substitute for the dollar vote. The former occurs, typically, once every four years and is in effect limited to a package deal offered by two not dissimilar political parties; the latter occurs every day and has no such limits. Further ruining the analogy, the political process is based on compulsion, the market on voluntary interaction.

Buchanan, James M., and Gordon Tullock. 1971. *The Calculus of Consent: Logical Foundations of Constitutional Democracy*. Ann Arbor: University of Michigan Press.

Cowen, Tyler, ed. 1988. *The Theory of Market Failure: A Critical Examination*. Fairfax, Va.: George Mason University Press.

Dauterive, Jerry W., and William Barnett. 1984. "The Economics of Special Interest Groups: An Alternative Framework." Paper presented at the Annual Meeting of the Southwestern Society of Economists, San Antonio.

DiLorenzo, Thomas J. 1988. "Competition and Political Entrepreneurship: Austrian Insights into Public Choice Theory." *Review of Austrian Economics* 2:59–71.

Foss, Nicolai Juul. 1994. "The Theory of the Firm: The Austrians as Precursors and Critics of Contemporary Theory." *Review of Austrian Economics* 7(1): 31–65.

Grier, Kevin, and Joseph McGarrity. 1998. "The Effect of Macroeconomic Fluctuations on the Electoral Fortunes of House Incumbents." *Journal of Law and Economics* 41(1): 143–61.

Hayek, F.A. 1948. "Socialist Calculation I, II, & III." In *Individualism and Economic Order*. Chicago: University of Chicago Press.

Holcombe, Randall, G. 1986. "Non-optimal Unanimous Agreement." *Public Choice* 48:229–244.

Kirzner, Israel M. 1973. *Competition and Entrepreneurship*. Chicago: University of Chicago Press.

Klein, Peter G. 1996. "Economic Calculation and the Limits of Organization." *Review of Austrian Economics* 9(2): 3–28.

——. 1999. "Entrepreneurship and Corporate Governance." *Quarterly Journal of Austrian Economics* 2(2): 19–49.

Lachmann, Ludwig. 1977. "The Role of Expectations in Economics." In *Capital, Expectations, and the Market Process*. Kansas City: Sheed Andrews and McMeel.

——. 1986. *The Market as an Economic Process*. New York: Basil Blackwell.

Lewin, Peter, and Steven E. Phelan. 1999. Firms, Strategies, and Resources: Contributions from Austrian Economics. *Quarterly Journal of Austrian Economics* 2(2): 3–18.

Manne, Henry A. 1966a. *Insider Trading and the Stock Market*. New York: Free Press.

——. 1966b. "In Defense of Insider Trading." *Harvard Business Review* 113 (Nov/Dec).

Manne, Henry A., Joseph McGarrity, and Robert Lloyd. 1995. "A Profit Analysis of the Senate Vote on Gramm-Rudman." *Public Choice* 85:81–90.

O'Brien, J. Patrick, and Robert R. Logan. 1989. "Fiscal Illusion, Budget Maximizers, and Dynamic Equilibrium." *Public Choice* 63:221–35.

Prendergast, Canice. 1993. "A Theory of 'Yes Men.'" *American Economic Review* 83(4): 757–70.

Stigler, George. 1961. "The Economics of Information." *Journal of Political Economy* 69.

Sutter, Dan, and Joseph McGarrity. 2000. "A Test of the Structure of PAC Contracts: An Analysis of House Gun Control Votes in the 1980s." *Southern Economic Journal* 67(1): 41–63.