NC STATE Poole College of Management

Enterprise Risk Management Initiative

Why Teams Often Make Riskier Decisions Than Individuals (and What You Can Do About It)

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In today's organizations where the use of teams is increasingly widespread, important decision making that was once reserved for a single individual is more often than not now made by teams. Indeed, enterprise risk managers are often tasked with conducting risk assessments in teams in order to provide analyses and recommendations to various functions in their organizations.

Might Teams Create Risks?

The evidence-based advantages of team decision making over individual decision making include: having more complete information and knowledge; increased diversity of views and opinions; higher quality, accuracy, and creativity of solutions; and, greater acceptance of the decisions and solutions generated by a team by others in a company (after all, two heads are always better than one, right?). So, given all of these clear advantages of team decision making, it would make sense that teams almost always produce better decisions than individuals, right? Well, when it comes to making decisions and recommendations about risk, unfortunately it's not that simple.

The Risky Shift Phenomenon

In fact, in situations that specifically involve both assessments of, and decision making about, risk, left to their own devices teams actually often do worse than individuals with sometimes disastrous results. Indeed, much of the evidence shows that teams will oftentimes make much riskier decisions than individuals, or what is known as the risky shift phenomenon. First identified in a Master's thesis by James Stoner at MIT in the early 1960s, risky shift refers to the tendency of a team to make a riskier decision than that of the average team member. One need only think about a classic example like the decision to launch the Space Shuttle Challenger on a very cold January day in 1986, even though information about the effects of cold weather on the shuttle were clearly known (but not acted upon). Many have commented about the various factors that played into this life-and-death decision, including attributions of groupthink, but the fact remains that the team that made the final and unfortunately fatal call on launching the shuttle that day most likely was a victim of the risky shift phenomenon; that is, they made a decision that was much riskier than one that would have been made by a single team member.

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Triggers of Risks for Team Decision-Making

So, what explains why teams often fail to make better decisions than individuals, including decisions related to assessing and responding to risk? There are many theories and explanations, but a few are generally agreed upon as likely culprits. First, team members are often predisposed to seek harmony in a team and not be viewed an unlikeable or disagreeable. Of course, this is in part a personality trait as some individuals "like to be liked" more than others, but people generally do have belongingness needs that teams fulfill. So, by introducing contrary information (e.g., "I think we're making a decision that's too risky, and here's why"), an individual team member might run the risk of being ostracized or rejected by his or her team members. Second, teams are often subject to what is known as confirmatory information search, meaning that once an early opinion is formed in a team, team members will only search for and introduce information that supports their early opinion. So, if a team's members are leaning towards recommending a risky decision early on, they will often ignore or dismiss any information collected later that goes against this early position. Finally, status can also increase the riskiness of team decision making. For example, if a team member with high status (a team leader, for example) speaks out strongly in favor of a risky decision or recommendation, lower status team members will be hesitant to speak up for fear of contradicting the higher status person and running the risk of losing valuable resources. This is especially true in organizations or countries that place a premium on status and hierarchy.

Reducing Risks of Team Decisions

If we know the risky shift phenomenon occurs when teams are assessing or making decisions and recommendations about managing risks, what can enterprise risk managers do to help ensure that it does not happen? Evidence shows that there are five critical steps that can be taken to eliminate (or at least minimize) risky shift.

1. **Keep risk assessment and decision making teams small.** One of the biggest culprits for risky shift and many other bad team habits and behaviors has to do with team size. That is, the larger the team, the more susceptible it is to risky shift and other pitfalls like groupthink. The evidence has converged around an ideal team size of about 5-7 members maximum. That's large enough to take advantage of diverse perspectives, viewpoints, and experiences, but small enough so that members won't have a tendency to "hide in the team" and fail to speak up to tame down risk levels.

2. **Use the "risk technique."** Specifically for teams charged with assessing risks, such as a risk identification and assessment workshop in a business unit, an important step is for the team members to talk about risks first and mechanisms to deal with risk before moving on to talking about gains from a risky decision. If teams do the opposite, and focus on how much will be gained by a risky decision and then discuss risk levels, they are likely to get carried away by the positives and minimize the negatives. Their confirmatory information search will only compound the problem.

3. **Appoint a devil's advocate or inquisitor.** The advice to always have a devil's advocate (i.e., someone who is actually assigned to take on and defend an opposite point of view) or devil's inquisitor (i.e., someone who doesn't take an actual side but is assigned to ask pointed and challenging questions) in a team has been around for years. Despite this, it's still surprising how few teams actually use this technique. It would be especially important in teams charged with assessing risk because it would force a team to examine all information and points of view before making a recommendation.

4. **Generate a second solution or recommendation.** Most teams work towards a solution or recommendation and, once they have it, members disburse and go about their functional responsibilities. What the evidence shows, however, is that if members stick around and work towards a second solution or recommendation, the team is likely to actually arrive at a better outcome. Why? When teams have conflict and members that are trying to advance their own agendas, other team members might "hold back" to protect their own viewpoints and interests. If, however, a team has reached a solution that everyone can live with, discussing a second solution or recommendation makes team members more comfortable in revealing information that they might not have been willing to share in the absence of an existing outcome. Once they have a decision or recommendation "in the bag," they will likely feel freer to reveal their deeper motives and information. This might be especially important when teams are evaluating the need for new types of responses to top risks.

5. **Be aware of time pressures.** In today's volatile, uncertain, complex, and ambiguous business environments, we are all under pressure to produce high quality outcomes with limited time and resources to remain competitive. It's simply the reality in which we all live, and that's certainly true when it comes to risk management. Unfortunately, there is consistent evidence that when under pressure, teams will be more susceptible to decision making pitfalls like risky shift. So, even though we can't wave a magic wand and create endless amounts of time for decision making, we can at least be aware that time pressures are the enemy of quality decision making. If team leaders sense that looming deadlines might be creating the type of pressure that is going to ratchet up risk levels, it would the right moment to step in to call this issue out and make sure members recognize these harmful effects. Of course, if more time is available, it should be taken.

ERM champions face constant pressure to ensure that coaching business unit leaders to make valid and reliable assessments of risks that may be on the horizon for their organization. And, oftentimes, teams of business leaders make such assessments. Even though evidence for the risky shift phenomenon is pervasive, the lesson here is that teams should not be "left to their own devices" when it comes to making decisions about risk. Team leaders and facilitators should arm themselves with the advice highlighted to reduce risky shift and ensure healthy team functioning and more accurate assessments and recommendations about risks that might affect the organization's strategic success.

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