

Managing Group Risk Attitude

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GOWER

Drivers of Group Risk Attitude

CHAPTER 4

A lot has been written about decision-making under conditions of uncertainty, and there is a large body of knowledge describing the various sources of bias which influence such decisions. Our summary of this work in Chapter 2 indicates that much of the work carried out has been academic in nature, undertaken by research groups in non-natural settings, with artificial constraints. Often the subjects are students or volunteers, and decision situations are engineered to provide usable data or to answer very specific questions as part of strictly scientific research. Such research aims to advance theoretical understanding and is robust enough to withstand debate and scrutiny; however it is not so good for addressing practical application, because the necessarily artificial laboratory setting fails to separate and test the interplay between the large number of real-life variables.

Academic research into psychological biases is doubtless valuable for highlighting the potential influences on individual and group perceptions of risk, but it does not tell the whole story. People who need to make actual decisions in the world of business or elsewhere need practical guidance based in reality.

Our work on understanding and managing risk attitude takes a clear practitioner perspective, rather than being academic or theoretical, though the foundation is rigorous and secure. We have laid out elsewhere our insights into the field of risk attitudes in general, and encouraged individuals to enhance their level of emotional literacy as a means of making attitudinal changes where required. Now it is time to focus on groups.

Defining groups

A group may be defined as a number of individuals with a shared purpose. Several characteristics within this definition may vary considerably. For example, a group may be formed from a small number of individuals (with

a minimum of two) or a large number (perhaps thousands). The purpose may be short-lived (for example, to make a single decision), the group may have a medium-term existence (such as a project team), or it may be a long-term entity (like a family or a corporation). The group may be gathered together in a single location or geographically dispersed. The degree of commitment of group members to the common purpose may vary. Indeed group members may have different reasons for belonging to the group in addition to the shared common purpose (including hidden agendas), some of which may be contradictory or incompatible with the overall group purpose. The one constant in any group is the fact that it comprises a number of individuals. Consequently, the starting point for understanding group behaviour is to understand the individuals who form the group.

The same is true for risk attitudes: group risk attitude is a function of the risk attitudes held by the individuals within the group. The situation in a group is however considerably more complex, as attitudes, behaviour and culture are not merely additive. The whole is different from the sum of the parts (and not necessarily greater!). In order to understand group risk attitude, it is helpful to explore the various influences which might operate within and upon the group.

Potential influences on group risk attitudes

It is clear that there are a range of influences on the behaviour of individuals who make up groups, including conscious factors, subconscious heuristics and cognitive biases, and affective emotional reactions – the ‘triple strand’ described in Chapter 1. Part of the operation of the three triple strand elements in group situations is their influence on the collective risk attitude in a particular situation, which in turn drives a group’s performance in making decisions. There is also a feedback loop, as illustrated in Figure 4.1, because the experience of the decision-making process and its outcomes (either favourable, neutral or unfavourable) colours the future risk attitudes of the group and its participating individuals.

While we have a reasonably good understanding of how individual risk attitudes are formed and how they can be managed proactively, the situation with groups is less clear. There are multiple influences on how groups operate in general, forming a complex web of factors. When the group context involves uncertainty then the position inevitably becomes harder to discern. It would be helpful to conduct a structured analysis of the factors influencing any group, in an attempt to determine the key drivers.

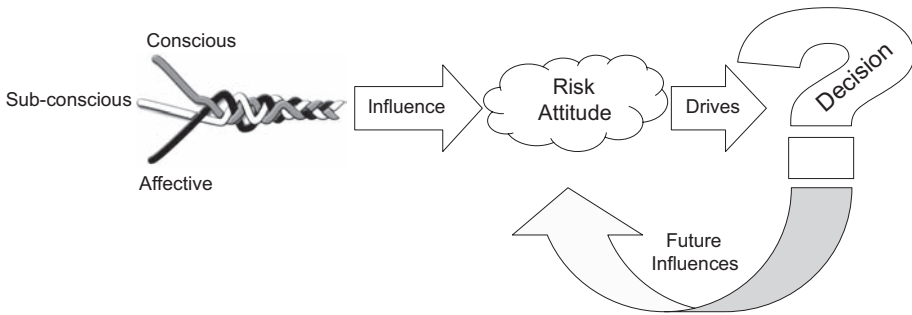


Figure 4.1 Influences on decision-making: 1

INDIVIDUALS WITHIN THE GROUP

Analysis of the factors influencing any group must start with the individuals within the group, since they are clearly a major factor in determining group behaviour. It is evident that not all group members are equal, and they can be separated by a variety of characteristics, including age, gender, organizational status, hierarchical authority, level of experience, personal preferences and motivations, and so on. The question is which characteristics (if any) are relevant to the degree of influence exercised by each individual within the group on its risk attitude?

Some of the characteristics would be difficult to analyze separately and might not be expected to be relevant. Examining differences based on age, gender or race might even contravene discrimination law. Personality-based preferences can be examined using established methods, but it would be difficult to gather a representative number of data points about individuals in decision-making groups to draw sensible conclusions.

Given the data-gathering challenge, one approach might be to use proxy measures to summarize the collective effects of a range of individual characteristics on the behaviour of the group and its risk attitude. Two such potential proxy measures are the perceived levels of *power or influence* of individuals in groups, and the degree of *personal propinquity* perceived by each individual. Both power and propinquity are complex factors with a range of contributory influences, but both have the advantage of being measurable to a degree, allowing them to be used as proxy measures for their underlying drivers.

Table 4.1 Sources of power

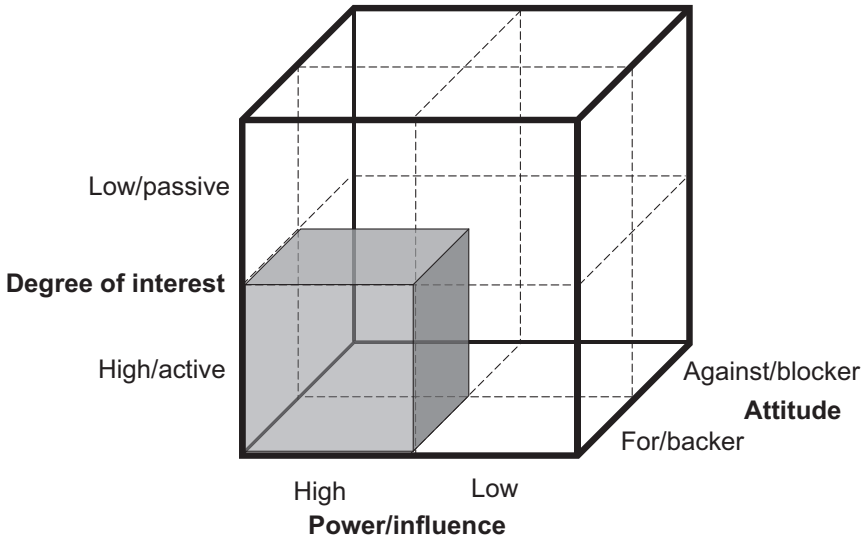
- Referent power. This is where an individual is regarded as a role model by others. It derives from who the person is, rather than what they do, and is based on trust and respect.
- Expert power. This is based on relevant knowledge and expertise demonstrated through technical competence and specialized skill.
- Reward power. Some individuals can deliver rewards to others, including financial, emotional, professional status etc., which lead people to defer to them.
- Coercive power. This fear-based source of power recognizes that some people can impose sanctions (formal or informal) on others in the group if they fail to comply (the opposite of reward power).
- Legitimate power. This derives from a formal position in the group or organization, which gives an individual authority to impose their view on others.

POWER AND PROPINQUITY AS PROXY MEASURES

There are many sources of power that provide the potential for an individual to influence a situation, as summarized in Table 4.1. While detailed analysis could be possible based on power types, a simple classification of individuals as having high power or low power within a group might be useful as a proxy measure for more complex factors, in order to summarize their potential influence on behaviour and outcomes.

Propinquity is defined as ‘nearness in relationship’ and represents the degree to which a situation, risk or decision is ‘near’ to an individual or group, or how much it matters to them personally. As a proxy measure, propinquity is less well researched, but it can be classified on a simple high–low scale and used as a proxy measure in the same way as power.

Together, the two variables of power and propinquity offer a potential model for understanding which individuals might exert more influence on group risk attitude than others. This approach is consistent with existing stakeholder mapping/analysis methods such as the Stakeholder Cube (shown in Figure 4.2) and the Stakeholder Circle™ (Figure 4.3). These methods are based on subjective assessments of a number of variables including both power (called ‘influence’ in other models) and propinquity (also known as ‘interest’ or ‘vested stake’). For example in Figure 4.2, the ‘degree of interest’ is an indication of personal propinquity of the stakeholder in question, based on the assumption that people tend to be more active and interested in things that matter to them, either because they are for and willing to back the decision, or against and intending to block it.



Key: The cube has eight different positions. The highlighted area represents a Powerful Active Backer

Figure 4.2 The Stakeholder Cube

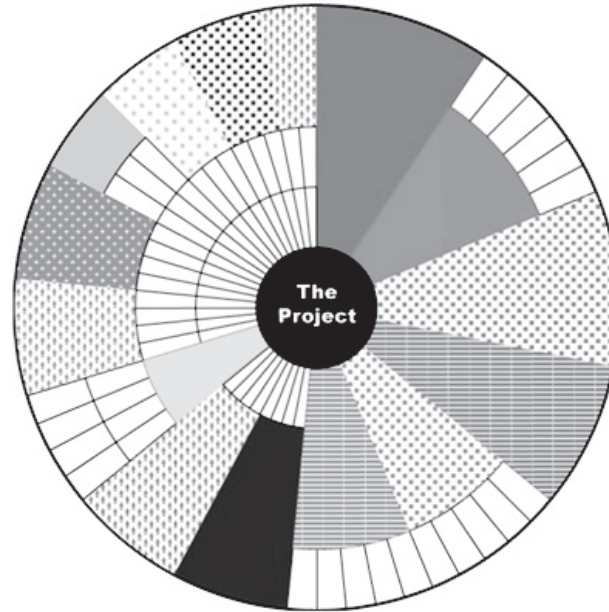
(adapted from Murray-Webster and Simon, 2006)

COLLECTIVE INFLUENCES ON GROUP BEHAVIOUR

Apart from the influence of individuals within the group, there are a number of other collective factors that influence group behaviour and therefore might influence perception of risk and group risk attitude. These include:

- group dynamics
- organizational culture
- national culture
- societal norms.

Group dynamics can be defined as 'the psychological and sociological processes that separate the workings of a group from a random collection of individuals'. It is concerned with the interactions between group members that shape the behaviour of the whole. Group dynamics focuses primarily on small group behaviour and includes the influence of norms, roles, relationships, development, the need to belong, social influence and effects on behaviour. Some aspects of overall group dynamics clearly have strong links with powerful and interested individual stakeholders, for example patterns of dominance and the



Key: Each segment represents a different stakeholder, with the most important at 12 o'clock, decreasing in importance as you move clockwise. Radial depth represents *power*. Arc width represents *influence* (a combination of power and the stakeholder's sense of urgency). Closeness to centre represents *proximity to the project* (only relevant to stakeholders with lower levels of power).

Figure 4.3 The Stakeholder Circle™

(adapted from Bourne, 2007)

style of leadership and followership adopted. However, there are other aspects of group dynamics that are less directly correlated to individuals, for example the maturity or developmental stage of the group, or the group's adopted style for conflict handling.

One specific set of influences on group dynamics are group heuristics (mentioned in Chapter 1) that work as short-cuts to group consensus, but which often result in the group adopting a different perspective or risk attitude from that taken by individual group members. 'Groupthink' is the most well-known group heuristic, although 'risky shift' – the tendency of a group to be more risk-seeking than its constituent individuals – and 'cautious shift' – when the group becomes more risk-averse than its individual members – work in a similar way by creating the illusion of safety in numbers, reducing personal accountability for decisions and skewing the risk attitude adopted by the group. For example a decision-making group might each individually think that diversification into a new market is unlikely to succeed and that the potential rewards do not justify the risky investment, but in a group situation they talk themselves into having a go, with no one individual wanting to appear too cautious in front of their peers.

Organizational culture is defined as 'the basic assumptions and values that operate subconsciously and are "taken for granted" within an organization, and that shape collective beliefs and behaviour'.

Although organizational culture could be viewed as an extension of group dynamics, it has a more permanent and enduring influence. Some organizations have a well-developed culture, built on unifying symbols, common processes and shared behaviour. In such organizations the culture enables cohesion and focus, institutionalizes success and sustains purpose and meaning. Organizational change in such cultures can be difficult. Other organizations, either through design or happenstance, have less unifying cultures. In such organizations it would be easier for particular decision-making groups to do their own thing and adopt decision-making processes and risk attitudes that seem appropriate situationally rather than conforming to 'the way things are done around here'.

National culture covers 'features of the typical values and behaviours of a nation that shape beliefs and expectations'.

The most influential work in this area by researchers including Hofstede (1982), Trompenaars and Hampden-Turner (1998) and Spony (2001) highlights

a number of distinct characteristics of national culture that distinguish between nations and influence their behaviour. For example two of Hofstede's diagnostic characteristics (Power Distance and Uncertainty Avoidance) have clear influences on risk attitude and decision-making. According to Hofstede, in some national cultures the norms include a high respect for hierarchical structures (high Power Distance) and/or being uncomfortable when situations are ambiguous and outcomes unknown (high Uncertainty Avoidance). In such cultures there would be a tendency for decisions to come from the most 'powerful' person, and any decision that removed ambiguity would be preferable to a delay that left the situation uncertain. Clearly in some group decision-making situations national cultural differences would have an effect, both on the perception of risk by the decision-making group, and on the dynamics between individuals within the group. Where the decision-making group is made up of individuals from a single (or closely related) national culture, this effect is likely to be absent.

Societal norms represent 'the values and behaviours that are acceptable to the majority of citizens within a particular culture or subculture'. These are often associated with risk-taking behaviour, for example attitudes to smoking in public places, or to driving when under the influence of alcohol or other mood-altering drugs. Although there may be a link between national culture and societal norms in some circumstances, in terms of influence on group risk attitude and decision-making, it is possible to separate the two influences.

A number of influences on group behaviour have been described here. Each is supported by a wide and deep body of research and applied knowledge that can be explored further. It is clear that each influence could matter to a greater or lesser extent depending on the situation, and this is consistent with our overriding position regarding risk attitudes – that they are situational, chosen responses based on perception of the risks present at a particular time.

However, if we want to understand group risk attitudes in order to manage them and their influence on decision-making, it is not enough just to recognize that there are many influences that could affect risk attitude and decision-making. We need to know whether there are any patterns in the degree of influence of each variable, and whether this allows development of strategies to support effective management of group risk attitude.

A working hypothesis

Given the range of factors and influences affecting group decision-making, it would be both interesting and useful to know if any are more influential than

others. Being able to prioritize the effect of different factors on groups would lead to improved understanding of the drivers of group behaviour, and may indicate approaches to manage these proactively in order to optimize decision-making performance.

The factors that seem relevant from our experience can be ranked in order of their closeness to the decision, forming a series of influences similar to the ripples in a pool of water (Figure 4.4). *Individuals* would be expected to have the closest relationship with the decision to be made and perhaps those individuals with the most personal interest in the decision might be closer than those who are more disinterested. Outside the individuals making up the *group* lies the group itself, and group dynamics could form the next layer of influence. Beyond the group are the various contexts within which the group exists, including the *organization*, then *society* at large, with the *national and international* settings at the outermost limit. As the distance increases between the various sources of influence and the decision itself, one could expect the strength of influence to decrease (analogous to the physical power–distance law).

The distance of these factors from the epicentre of the decision can be described as *propinquity*. This is defined as ‘nearness in relationship’ and represents the degree to which something matters to an individual or group. Propinquity appears to decrease through the various influential factors in the following series:

1. Individuals with the power to affect the decision might be expected to have a high degree of propinquity, with lower propinquity for those who are less powerful.
2. The decision-making group itself has an interest in the decision outcome, though the decision might matter less to the group as a whole than it does to the various individuals who comprise the group.
3. The organization to which the group belongs will have an interest in the decision, but the degree to which this matters to the organization is likely to be less than for the group.
4. It is possible that some decisions may have a wider interest for those outside the organization, for example to stakeholders in society at large. However, the degree of closeness in most cases will be much lower than for those in the organization or the decision-making group.
5. A few decisions will matter at national or international levels, especially those made by politicians or executives in global corporations and so on. Propinquity is expected to be lowest at this extreme distance from the point at which the decision is made.

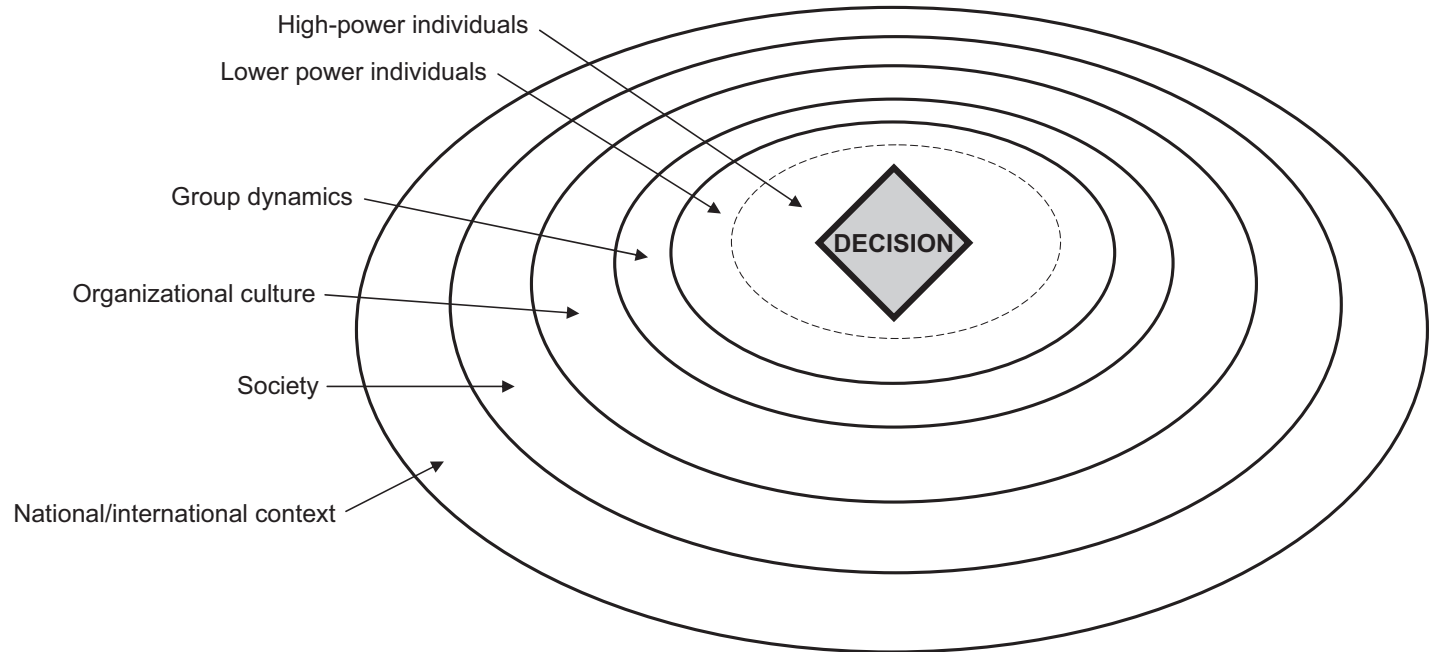


Figure 4.4 Influences on decision-making: 2

This apparent reducing degree of propinquity can be overlaid onto these five factors, as shown in Table 4.2.

Table 4.2 Decreasing propinquity across five factors

Factor	Propinquity
1. Individuals	Very high
2. Group	High
3. Organization	Medium
4. Society	Low
5. National/international	Very low

If the factors influencing a group decision can be ranked by propinquity in this way, then it becomes possible to formulate a working hypothesis relating these to the behaviour of a group when making a decision in an uncertain context. Such a hypothesis could be stated as follows:

The most important influence on any group decision is the individual risk attitude of group members with the highest levels of power followed by the individual risk attitudes of other less powerful group members. Group dynamics and organizational culture exert significant influence, with wider societal and national/international influences having the least impact. This rank order of influencing factors may be driven by propinquity.

Testing the hypothesis

The number of nested variables present in this working hypothesis makes it inappropriate (and perhaps impossible) to design rational, laboratory-based scientific experiments to test it. A process of social enquiry examining influences on decision-making groups in uncertain circumstances is more likely to yield meaningful results. Our approach therefore has been to use a two-phase research programme to analyze retrospective views from members of decision-making groups on the decision processes and decision outcomes for particular decisions.

In the first phase, detailed data have been gathered from a small number of decisions made by groups in a variety of situations. Up to three different perspectives were obtained for these decisions, to explore the varying

perspectives of different group members on the same decision-making situation. A total of eight decisions were examined in detail, with responses from eighteen individuals. The questionnaire used to gather data is presented in Appendix B. Details of the decisions are analyzed in Appendix C (sanitized to protect the confidentiality of participating individuals and organizations). These decisions were subjected to a rich interpretative analysis to determine the key drivers influencing the decision-making process and outcome, and the results were used to hone the original hypothesis and design a data-gathering instrument for the second phase.

In the second phase, a web-based survey was used to validate the refined hypothesis, and to gather sufficient data to support a robust analysis. This survey (presented in Appendix D) focused on testing the relative importance of the various factors in influencing the decision-making process and outcome. It also examined the relative strength of the triple strand influences. Survey participants were encouraged to consider only those decisions which they perceived to be both risky and important. Decisions perceived as risky by the respondents were chosen in order to maximize the chance that risk attitudes would have been influential in the decision-making process. Decisions perceived as important were used as propinquity is likely to be more evident and significant in such contexts. A total of 281 responses were obtained from the web-based survey, providing results that are likely to be both meaningful and significant.

The subjective nature of the data-gathering method is fully recognized, since the results represent the perception of those individuals who completed the survey, coloured by multiple biases and other influences. Scientifically rigorous research in this area usually focuses on a single variable in a complex process, and the whole is never tested. This presents researchers with a choice: defensible results based on a constrained and simplified approach; or use of a less rigorous method to generate richer results.

Our motivation here is to unpick the many and varied influences and to understand the relative importance of these from the perception of decision-makers. 'Perception' is the operative word here. In order to improve the management of group risk attitude, decision-making processes and resultant decision outcomes, a deeper understanding is needed of the drivers of group risk attitude *as perceived* by individual members of decision-making groups.

The results of our research are presented and discussed in the next chapter, which provides a rich picture from the detailed decision analysis, supported by a closer examination of the key drivers of decision-making performance.