

Case Incident 1

If Two Heads Are Better Than One, Are Four Even Better?

Maggie Becker, 24, is a marketing manager for Kavu, a small chain of coffee shops in eastern Ohio. Recently, Maggie's wealthy uncle passed away and left to Maggie, his only niece, \$100,000. Maggie considers her current salary to be adequate to meet her current living expenses, so she'd like to invest the money so that when she buys a house, she'll have a nice nest egg on which to draw.

One of Maggie's neighbors, Brian, is a financial advisor. Brian told Maggie there was a virtually endless array of investment options. She asked him to present her with two of the best options, and this is what he came up with:

1. **A very low-risk AAA municipal bond fund** With this option, based on the information Brian provided, Maggie estimates that after 5 years, she stands virtually zero chance of losing money, with an expected gain of approximately \$7,000.
2. **A moderate-risk mutual fund** Based on the information Brian provided her, Maggie estimates that with this option, she stands a 50 percent chance of making \$40,000 but also a 50 percent chance of losing \$20,000.

Maggie prides herself on being rational and objective in her thinking. However, she's unsure of what to do in this case. Brian refuses to help her, telling her that she's already limited herself by asking for only two options. While driving to her parents' house for the weekend, Maggie finds herself vacillating between the two options. Her older brother is also visiting the folks this weekend, so Maggie decides to gather her family around the table after dinner, lay out the two options, and go with their decision. "You know the old saying—two heads are better than one," she says to herself, "so four heads should be even better."

Questions

1. Has Maggie made a good decision about the way she is going to make the decision?
Answer: No, limiting the investment options to 2 variables is already not a sound decision. Four heads may or may not be better than one. Groupthink may occur as well.
2. Which investment would you choose? Why?
Answer: Option B, the moderate risk mutual fund has much more opportunity. She is only 24 years old and has many years to invest and ride the cycles of mutual funds. Mutual funds and stocks consistently outperform bond funds.
3. Which investment do you think most people would choose?
Answer: Option B. Mutual funds invested in a moderate risk category are fairly safe, especially over the long run.
4. Based on what you have learned about groupshift, which investment do you think Maggie's family will choose?
Answer: Groupshift indicates that the family will move toward the more risky investment, which is the mutual fund.

Case Incident 2

Herd Behavior and the Housing Bubble (and Collapse)

It is sometimes easy to forget that, in many ways, humans are not unlike other animals. Economist John Maynard Keynes recognized this when he commented, “Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits— a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities.”

When such “animal spirits” are particularly dangerous is at the collective level. One animal’s decision to charge over a cliff is a tragedy for the animal, but it may also lead the entire herd over the cliff.

You may be wondering how this is applicable to organizational behavior. Consider the recent housing bubble and its subsequent collapse. As housing prices rose ever higher, people discounted risk, seemingly based only on observing what others were doing. Homeowners and investors rushed to buy properties because everyone else was doing it. Banks rushed to provide loans with little due diligence because, well, everyone else was doing it. “Banks didn’t want to get left behind. Everybody lowered their underwriting standards, no matter who they are,” said Regions Bank executive Michael Menk. “As bankers that’s who we are; we follow the herd.”

Yale Economist Robert Shiller called this “herd behavior” and cited research showing people often rely heavily on the behavior of groups in formulating decisions about what they should do. A recent study in behavioral finance confirmed herd behavior in investment decisions and showed that analysts were especially likely to follow other analysts’ behavior when they had private information that was less accurate or reliable.

Questions

1. Some research suggests herd behavior increases as the size of the group increases. Why do you think this might be the case?
Answer: The answer will be different from each student. But some similarities may appear. For example, the reasons for the behaviors of the herd potentially are more attractive as the herd grows in size. Groupshift on decisions makes group members feel more protected from results. The feeling of conformity to herd behaviors can make a member feel more a part of the group for social belonging. Or, the larger the herd, the greater is the desire for cohesion to solidify the group’s status and importance.
2. One researcher argues that “pack behavior” comes about because it has benefits. What is the upside of such behavior?
Answer: The answer will be similar to that for question one.
3. Shiller argues that herd behavior can go both ways: It explains the housing bubble, but it also explains the bust. As he notes, “Rational individuals become

excessively pessimistic as they see others bidding down home prices to abnormally low levels.” Do you agree with Shiller?

Answer: This answer will depend on the students’ opinions.

4. How might organizations combat the problems resulting from herd behavior?

Review the video:

<http://www.youtube.com/watch?v=LHUKjn8E02k&feature=related>

Students should recognize how making assumptions about what’s “true” without a clear assessment of what is “real” will lead to the types of errant group behavior described by Shiller.

Sources: Based on R. J. Shiller, “How a Bubble Stayed Under the Radar,” *New York Times* (March 2, 2008), p. BU6; W. Hobson, “Reversal of Fortune,” *Panama City News Herald* (March 22, 2009), www.newsherald.com; P. Leoni, “Pack Behavior,” *Journal of Mathematical Psychology* 52, no. 6 (2008), pp. 348–351; and J. Reiczigel, Z. Lang, L. Róz

Instructor's Choice

The Team Breaks the Curse

Perhaps there has not been a stronger or longer rivalry than the one between the Boston Red Sox and the New York Yankees. Until the fateful series in 2004, many Boston Red Sox fans would ask, “How can the Boston Red Sox ever beat the New York Yankees and win a World Series?” John W. Henry, the 54-year-old principal owner of the Boston Red Sox, thinks he finally may have the answer—earn more money and build a better team. Sounds simple, but in the realities of the big leagues and the astronomical salaries commanded by players, simple is not always easy. However, Mr. Henry has a plan. Step One, lose the loser image and the Curse of the Bambino (Babe Ruth). Until 2004, the Red Sox had not won a World Series since they sold Babe Ruth to the Yankees almost a century ago. Step Two, build a strong team where everyone has a distinct role to play and plays that role very well. Mr. Henry has brought in a number of talented players from pitchers to hitters that are expected to be All-Stars at their positions. Step Three, increase revenues to fund the upgraded team. To date, the New York Yankees produce around \$340 million in revenues to the Boston Red Sox’s \$230 million. Step Four, expand the Red Sox Inc. enterprises so revenues will flow from other sources other than just selling seats. Since all Red Sox games are sold out (and have among the highest ticket prices in the league), the organization was limited in revenue opportunities. Step Five, do all of the above. This formula helped break the curse and seal a World Series victory!

- Using a search engine of your own choosing, investigate the business and management practices of the Boston Red Sox baseball organization (see www.redsox.com). List what you perceive to be the organizational characteristics of the Red Sox.
- Characterize groups that are found in the organization (i.e., players, etc.). From your search, what can you say about group norms, roles, rules, compliance, and deviance in this organization?
- Is this a dysfunctional team in your opinion? Support your opinion. Are there any socialization experiences that could help this team to accomplish its goals and objectives? Explain.

Instructor Discussion

This is an unusual assignment in that it asks students to examine an extremely successful organization that has yet to reach its paramount goals and has been labeled as a “loser” because of its intense rivalry with the New York Yankees. Students will find a wealth of information on the team’s Web site. Additional materials on the business dealings of the Red Sox and various roles played by players and management alike can be found by reviewing “Breaking the Curse,” by William C. Symonds in *Business Week*, April 26, 2004, pp. 75–83. Like other examples in the chapter, the Red Sox present a good example of group and team behavior. Illustrations of success and failure (see History section on the Web page) provide examples of how the team has fared over the years and the influence of players and managers on the equation. For additional resource information, see industry-specific publications such as Street & Smith’s *Sports Business Journal* (www.sportsbusinessjournal.com).



EXPLORING OB TOPICS ON THE WORLD WIDE WEB

<http://www.goto.com>
www.lycos.com

www.google.com
www.hotbot.com

www.excite.com
www.bing.com

1. Learn more about why people join groups, groupthink, group development, and other topics at the Allyn & Bacon communication studies Web site found at <http://www.abacon.com/commstudies/index.html>. Once there select the “small group” entry and then choose two or three more topics to read. Choose the most interesting topic and take the interactive quiz. E-mail your results to the instructor.
2. Peer pressure can be a positive thing; it is really just a way to communicate group norms. To learn more about how to use positive peer pressure to prevent binge drinking on campus, visit:
<http://www.csmonitor.com/1997/1027/102797.feet.learning.2.html>.
3. Brainstorming is a group technique to encourage the development of creative alternatives. Now that we know what it is, how do we do it? What would you do if you were called upon to lead a brainstorming session? Visit this U.K. Web site for an overview on how to conduct a brainstorming session
<http://www.brainstorming.co.uk/tutorials/preparingforbrainstorming.html>. You might also be interested in visiting the home page of this same site found at <http://www.brainstorming.co.uk/contents.html> where you will find lots of creativity exercises, puzzles, free training, articles and more. Make a list of the five most important things you must do to prepare for a brainstorming session and bring it to class. What is the link between social loafing and group cohesiveness? Does one enhance or detract from the other? Write a two-page paper on the topic. Conduct a Web page search with these two terms.