

Chapter 13: Decision-making, ethics and social responsibility

OB in focus

Teams make better decisions than individuals

Teams clearly outperform individuals in economic decision-making. That is the key result of a recent laboratory study by Professor Kocher and Professor Sutter. The two researchers show that the type of the decision maker – an individual or a team – makes a significant difference in an interactive economic environment, whether it is the investment and marketing strategies of companies and fund managers, or the budget and monetary policy making of governments and central banks.

Small teams are smarter decision makers than individuals because they are better at processing information and better at predicting other decision makers' choices. The growing importance of teams in organizations and decision-making in general renders these findings highly relevant. Decision-making teams are everywhere, including families, boards of directors, legislatures and committees. Households and firms, the main players in the economy, are typically not individuals but teams of people with a joint stake in their decisions. Similarly, political and military decisions as well as decisions on monetary policy are frequently taken by teams rather than by individuals.

In the laboratory setting that the researchers used to study the differences in decision making between small teams and individuals, there are four decision makers. Each of them can choose a number between (and including) zero and 100. The winner of the game is the decision maker with the number that is closest to two-thirds of the average of the four chosen numbers. The game is repeated four times. Despite its simplicity, this so-called 'beauty-contest' or 'guessing' game captures important features of investment decisions in financial markets. Kocher and Sutter find that teams (consisting of three people) are much better at guessing what other decision makers do in this game. In their experiment, teams win the game about 80 per cent more often than individuals in cases where small teams compete against individuals.

Source: M. Kocher and M. Sutter (2005) 'The decision maker matters: individual versus group behaviour in experimental beauty-contest games', *Economic Journal*, Wiley-Blackwell. For further information, visit www.res.org.uk/society/mediabriefings/pdfs/2005/jan05/kocher-sutter.pdf

