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Regulatory focus and investment decisions in small groups

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Abstract

Regulatory Focus Theory was applied to small interactive groups. Based on previous research, it was expected that groups with a promotion focus would discuss gain-relevant information, whereas groups with a prevention focus would be concerned with potential losses. Furthermore, promotion groups were expected to make riskier decisions than prevention groups. Regulatory focus was manipulated by rewarding good or penalizing poor group performance on a preliminary task. Subsequently, three-person groups discussed several investment funds and made a consensual investment decision. Results supported the hypotheses and suggested that regulatory focus requires time to exert its influence in groups.

Keywords: Regulatory focus; Small group; Decision making; Time pressure

One of the main tasks of small groups in organizations is to decide how to manage their budgets and how to invest their monetary assets. Secure investment alternatives often provide only small returns, while riskier investment alternatives have the potential for higher returns alongside the danger of high losses. Ultimately, all investment decisions could be right or wrong, in two respects. First, a decision could be right because a group decided to invest in a favorable enterprise that yielded high returns, or because it rejected an investment that would have resulted in serious losses. Second, a decision could be wrong because of a missed chance for a profitable investment, or because of an investment in a losing opportunity. Since both risky and conservative decisions could be right or wrong, individuals and groups differ in the strategies they pursue. The present study examines how and when basic orientations in groups affect whether groups try to avoid risk or whether they pursue the goal of maximizing their returns.

With his regulatory focus theory, Higgins (1997, 1998) provides a framework to examine different strategies for approaching positive outcomes and avoiding negative outcomes. According to regulatory focus theory, people with a promotion focus are concerned with the presence or absence of positive outcomes. They regulate their behavior towards advancement, aspirations, and accomplishments. In contrast, people with a prevention focus are concerned with the absence or presence of negative outcomes. They orient their behavior towards protection, safety, and responsibilities. Recent research has demonstrated several effects of these strategies on information processing, performance, and decision making (e.g., Higgins, Shah, & Friedman, 1997; Florack & Scarabis, in press; Florack, Scarabis, & Gosejohann, 2005; Förster, Grant, Idson, & Higgins, 2001; Förster, Higgins, & Taylor Bianco, 2003; Shah & Higgins, 1997, 2001). Zhou and Pham (2004), for instance, found that individuals are differentially sensitive to gains and losses depending on whether a decision task evokes a promotion or a prevention focus. Levine, Higgins, and Choi (2000) provided us with first evidence that regulatory focus is also relevant for the performance of small groups. The authors examined three-person groups working on a multi-trial signal detection task (recognition memory). Participants had to indicate whether presented nonsense words

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had already appeared before. They were told that the groups' performance would be calculated by adding up the correct responses of the individual group members. The regulatory focus was varied by a subtle manipulation. Participants in a promotion focus expected to gain additional money for correct answers, whereas participants in a prevention focus assumed that they would lose money they already had received if they made mistakes. The authors found that after an initial phase, members of promotion groups more frequently recognized stimuli which had not appeared before and were thus riskier in their responses than members of prevention groups. This study therefore extends previous research by demonstrating that people who work together over time converge in their regulatory orientations.

Although the participants in the study by Levine et al. (2000) were aware of the answers of the other group members, they did not interact and discuss their decisions. The present study examined whether regulatory focus also operates in interactive small groups, i.e., whether it directs their decision processes and consequently their decision outcomes. In line with the research of Levine et al. (2000), we assumed that promotion groups are less risk-averse during a discussion and make riskier decisions than prevention groups. In addition to the question whether the regulatory focus generally has an impact on decision processes in groups, we were interested in whether this impact is affected by time pressure. We suppose that group members do not always agree on their goals and their assessment of possible means for reaching them, but that they converge in their views over time. Levine et al. (2000) referred to the classic work of Sherif (1935, 1936) to illustrate this point. Sherif found that individuals in groups of two or three participants became more similar in the judgment of ambiguous visual stimuli over time. Levine et al. put forward that the participants in the experiments of Sherif as well as individuals working on ambiguous social questions need to develop a shared reality about the best solution and the best means for reaching it. Indeed, Levine et al. did not observe regulatory focus effects in the initial phase of the interaction, but they did find it in a subsequent phase. Therefore, we assume that time pressure in small interaction groups impedes the development of a shared reality of a task and this attenuates regulatory focus effects on group decisions.

Upon preliminary examination, some lines of small group research and also research on individual level behavior suggest a contrary assumption with respect to the effects of time pressure. For instance, the Attentional Focus Model (Karau & Kelly, 1992; Kelly & Karau, 1999) proposes that time pressure serves to narrow group members' focus to the most salient features of the decision task and that groups which have less time for their decision process information less systematically. If we take into account that for individuals in a promotion focus different features of a task are salient and relevant than for individuals in a prevention focus, the Attentional Focus Model may lead to the assumption that the regulatory focus has a stronger impact on decision making under time pressure. This reasoning seems also to be consistent with research on two process models which make predictions about the use of salient cues in individual judgment and decision making (Chaiken, Liberman, & Eagly, 1989; Kruglanski & Webster, 1996; Petty & Wegener, 1999). However, the argument that time pressure enhances the effects of regulatory focus in groups presupposes that the regulatory focus a priori is coupled with shared diagnostic cues and/or a shared heuristic to pursue the group goal. Indeed, this may be true for groups that have worked on a specific kind of decision problem several times and have developed means that could be applied in a heuristic manner. However, in our view the development of a shared reality is a precondition for regulatory focus effects in groups. Especially in groups working together on an unfamiliar problem for the first time as in the studies of Levine et al. (2000) neither a shared regulatory orientation is prevalent nor can shared heuristics be applied. For those groups, it takes time to develop a shared view and, thus, regulatory focus effects should increase over time. In the present study, we have examined groups who work on an unfamiliar problem without having much of a common history.

To summarize, the main objective of our study was to examine (a) whether regulatory focus has an impact on interactive group behavior and group decisions, and (b) whether this effect is moderated by time pressure. To examine our hypotheses, we let participants work on two different tasks. The first task was used to induce either a promotion or prevention focus with a framing manipulation (cf. Tversky & Kahneman, 1981). The second task involved a group decision about a financial investment. During this task, the groups made a decision under time pressure or without time restriction. We assumed that prevention focus groups would be more risk-averse during the discussion of the decision and would make less risky investments than promotion focus groups. This effect was expected to be stronger when the time for the group discussion was not restricted.

Method

Participants

One hundred ninety-two students of two different German high schools volunteered for the study. They were divided into 64 three-person groups and randomly assigned to one of the four experimental conditions of the 2 (promotion vs. prevention focus) $\times$ 2 (time pressure vs. no-time restriction during discussion) experimental design. One group was excluded from the analyses because it had no discussion about the investment decision, as was required.

Procedure and materials

First, the experimenter thanked participants for their willingness to take part in the study and explained that the