The Late-Goal Effect: Risk-taking and Deadlines

Last week Manchester City became Premier League champions after a nail-biting match that had them lagging 1 to 2 by the end of regulation time, and so second in the Premier League after local rivals Manchester United, but then recovering with two injury-time goals to win the match and league.

It was surely an effort to bring their fans to the edge of their seats, as well as the Manchester United fans. Lest we think that such late-game heroics are local the kind of football played in Europe (and, pretty much everywhere), fans of American football know that many games are decided by magical plays in the last two minutes of the 60-minute game time.

What is going on in those last few minutes, and why is it so different from the rest of the game? Looking at the data from American Football, Lehman and coauthors (2011) looked at the deadline-proximity effect. It starts with the idea that decision makers make changes and take risk if their performance is below a goal, or aspiration level. This is known in many situations, and is actually best documented for organizations making changes when their performance is low (Greve, 2003). But being below is worse just before a deadline, because then one has to do something truly dramatic and risky to catch up. And in fact, that is exactly what the football teams in the study were doing, because they were choosing a riskier play when they were behind late in the game then they were equally behind earlier.

Is such risk-taking good? For sports, it may be. Risky plays naturally have a chance of failing, but the extra risk could well be worth the chance of winning the game, and losing by more points is not such a great loss. The only problem would be the following. Risk in sports and in management is unfortunately more similar than we would like it to be, because there is the same sense of winning when getting just above a target level in management, even when the targets are arbitrary and the deadlines (usually by accounting convention) are arbitrary as well. We do not know yet, but it is reasonable to expect that some late-period risk taking occurs also in firms. Does the level of risk taking by managers and others in organizations matter enough for us to care about whether it is done consistently over time? A good person to ask that question would be J.P. Morgan Chase CEO James Dimon, who is now looking at losses estimated to $3-5 billion inflicted on the bank by some unusual trading positions.


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