Special Session Summary

Alternative Decision Processes in Consumption: Personal Rules, Rationales, and Identity Maintenance

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SESSION OVERVIEW

Consumers make many decisions on a daily basis. The outcomes of these decisions have been traditionally taken to reflect consumers’ internal states, or preferences. Furthermore, traditional view requires the consumer to attempt to provide an optimal solution for each decision problem. This session describes a different mechanism that drives consumer behavior in various situations. Specifically, consumers are assumed to sometimes follow overarching guidelines (rationales / rules) simply because of the complementarity between the decision problem and a specific guideline they hold. Moreover, consumers sometimes behave in this manner even when it is not in their best interests to do so. This behavior can be characterized by a discrepancy between preferences (expressed) and actions (or predicted actions).

The first paper by Hsee et al (2003) describes three important classes of rationales that are used by consumers to their own disadvantage. In all three cases, consumers focus too much on rationalistic attributes and too little on hedonic attributes because they try to be rational, even when the latter are more discriminatory for their subsequent happiness. Consumers’ attempts at acting in a rational way are classified into three categories: In the first, “lay economism,” consumers are using economic-like principles (e.g. “maximize economic gains”) that are invoked because of the economic nature of the decision problems to make decisions. In the second, “lay scientism,” consumers overemphasize objective attributes over affective-subjective ones. Finally, in the third, “lay functionalism,” consumers over focus on their primary goal. The paper argues that when following such rationales, consumers may overemphasize unimportant and sometimes wrong attributes of the situation, and thus make suboptimal outcomes.

The second paper by Amir and Ariely takes one such consumption rule and investigates the mechanism by which it operates. Specifically, it is demonstrated that people are not willing to pay more in order to delay a positive experience, even in those particular situations in which they would be happier doing so. Moreover, the more salient the invoking cue for this rationale, or the more salient lawful behavior is, the grater the discrepancy between peoples’ preferences and their actions. Finally, the specific reason this rule is invoked, the thought about monetary payment, is demonstrated by showing that willingness to exert effort as opposed to willingness to pay does in fact correspond to expressed preferences.

The third paper by Prelec proposes a model of personal rules. The model assumes that in the presence of a personal rule, a choice becomes a signal of a long-run propensity to behave in a certain way (e.g., to spend money on luxuries, to neglect family life in favor of work, etc.). This raises the stakes on any single decision, because by breaking the rule, a person also lowers their expectations of future adherence to the rule. The paper also explains why rules are in some sense ‘designed to be broken,’ but not too often.

In sum, this emerging body of research uncovers important mechanisms that guide decision makers in many consumption occasions. These mechanisms suggest that many times consumers behave according to lay principles that stem from experience in other domains, or from cultural or social antecedents. Understanding these processes, where and when they dominate behavior aids in identifying and in understanding situations in which consumers err or behave in specific, previously unpredictable ways.

“Hot Predictions and Cold Choices: Rationalism in Decision Making”

Christopher K. Hsee, Jiao Zhang and Fang Yu, University of Chicago Graduate School of Business

The present research concerns decisions with choice options involving a tradeoff between a relatively rationalist attribute and a relatively hedonistic attribute. Rationalistic attributes are colder (less affective), more objective, easier to be transshad into economic calculus, easier to be quantified, or more directly related to the primary function of the activity at hand. In contrast, hedonistic factors are warmer (more affective), more subjective, less easy to be transshad into economic calculus, less easy to be quantified, and more directly related to the process of the activity at hand.

Traditional decision theorists assume that when choosing between options that have the same current costs, decision makers analyze which option will deliver the highest expected outcome utility and choose that option. This is a consequentialist utility analysis approach. According to this approach, when people are choosing between choice alternatives for consumption purposes and when the choice alternatives involve a tradeoff between a rationalist attribute and a hedonistic attribute, they should consider these attributes only to the extent that these attributes can help predict the consumption utility of the choice alternatives. In other words, if half of the people are asked to predict which option will produce a greater consumption utility, and half of the people are asked to indicate which option to choose, the responses of the two groups of people should be identical. In other words, there should be no inconsistency between predicted utility and choice.

Built on research on reason-based and rule-based choices, our theory is that there is rationalism among decision makers. Decision makers tend to focus on rationalist attributes and downplay the importance of hedonistic attributes. Compared to the consequentialist utility analysis, decision makers will assign more weight to rationalist factors and less weight to hedonist attributes. In other words, there will be an inconsistency between predicted consumption utility and choice. That is, compared to people’s prediction of which option will bring the best consumption utility, people’s choice will veer toward the rationalistic-superior and hedonistically-inferior option.

Here is an example: Respondents were asked to choose between two free dinner sets, each consisting of four dinners to be consumed over the next four weekends. One set of dinners decreases in price from week 1 to week 4, but the overall value is slightly higher. The other set of dinners increases in price from week 1 to week 4, but the overall value is slightly lower. Respondents indicated their preference either by making a choice between the two sets of dinners, or by predicting which set they would enjoy more. In predicted enjoyment, most people favored the increasing but lower-total-value series. But in choice, most people chose the decreasing but higher-total-value series.

We have also found similar inconsistencies between predicted experience and willingness-to-pay. We will present other results, covering several representative subcategories of lay rationalism, including the tendency to focus on objective and quantifiable attributes, the tendency to focus on economic calculus, the tendency to focus on the “sum” of temporally-extended events, and the tendency to focus on the functionality of an activity.
We will discuss the significance and potential problems of using decision/WTP/predicted-experience to study rationalistic decisions, and suggest alternative methods. We also review the relevant literature and discuss the relationship between rationalism and decision rules.

Whereas research on affect-driven decisions suggests that people weigh hedonic factors too much by the consequentialist benchmark, the present research shows that people weigh such factors too little. We conclude with an integrative framework that reconciles these two apparently contradictory models.

“Decisions by Rules: Disassociation between Preferences and Willingness to Act”
On Amir & Dan Ariely, Massachusetts Institute of Technology

Individuals make many decisions entailing payment or reception of money. Such exchange has been argued to reflect their internal attitudes, utilities or preferences, such that the decisions taken maximize (under a set of constraints) these internal values. For example, if a person schedules a vacation on a date two months into the future instead of a week into the future, all else being equal, it is assumed that this person has an internal state under which the expected pleasure of the later vacation is higher.

However, several streams of research have demonstrated that even predicted actions may be inconsistent with expressed preferences. Such inconsistencies may arise because of the specific context the decision maker encounters (Tversky & Simonson, 1993), the affective characteristics of the decision problem at hand (Fredrick, 2002; Slovic et al, 2002), or the specific elicitation procedure used (Fischoff, 1991). More recently, researchers have begun uncovering the mechanisms underlying some of these documented inconsistencies. A major driver of such inconsistencies in the realm of consumption was proposed by Prelec (1991) to be the use of rules and morals as opposed to cost-benefit analyses. Prelec focuses on the use of such rules in self-control, and identity maintenance. Hsee et al (2003) describe a set of “expressed preferences—anticipated action” inconsistencies and categorizes them into three subgroups of “rationales”—rule-like principles that guide behavior, and are sometimes applied even when doing so leads to less preferred outcomes. The current work follows a similar line of thought but instead focuses on one such rule, and attempts to provide detailed evidence for the decision making mechanism itself.

While there is no question that internal states are commonly used as inputs for consumers’ decisions, the main two claims of the current work are that 1) when consumers make decisions, they follow these “moral-like” rules when these are invoked, instead of staying true to their preferences, and that 2) these rules can sometimes be invoked in situations that undermine preference maximization. For example, if the person in the above example will be willing to pay more for the immediate getaway, this will be a preference-willingness-to-pay inconsistency. If the only reason the less preferred vacation was chosen was an unwillingness to pay an equal or greater amount for a delayed positive experience, then the claim that the individual is following a decision rule would be supported.

So why the term “rules”? Unlike preferences these rules are assumed to be general over-arching guidelines for behavior and as such are applied broadly in a legal-like manner—“do or do not” (hence the term “rules”) (Prelec, 1991). One consequence of their broad application is that there are circumstances in which the rules are not applicable and yet they are applied (again as with many legal systems), resulting in actions that can at times be disassociated from preferences.

Another aspect of these rules is that they have to be learned (while preferences can be either learned or endowed). Some of the rules are learned from personal experience, while others are based on social, cultural, and moral conventions. Because these rules are learned and are socially constructed they are also not universal and the specific rules that are applied in different circumstances depend on individual, social, and cultural factors.

In order to investigate the mechanism underlying the use of decision rules, the paper focuses on one specific rule of consumption. To do that, one needs to show that behavior follows a systematic pattern that coincides with the “rule” (observe behavior), does not match people’s preferences (measure preferences), and that this happens upon specific rule activation (invocation cue). In fact, it will be argued that money or the act of paying is the cue that invokes this rule, by showing that it is not medium invariant (“paying” with effort does not invoke this rule). Moreover, one must ascertain that the actual mechanism is rule-following-like in nature. This last property can be investigated through the use of priming of rules and lawful behavior, and through personality differences.

The paper attempts a deeper investigation of one particular rule—“One should not pay more for a delayed experience”. Specifically, this rule concerns the assumed advantage of having positive experiences sooner rather than later. This rule implies that delay should not be paid for. Pilot experiment 1 demonstrates that there are at least some desirable experiences (concerts being one of them) that are preferred to be experienced later rather than sooner. This preference for delay is established using both choices and discounted expected future happiness as proxies of preferences. Moreover, in Pilot experiment 2, this preference is shown to correspond to the happiness from anticipation of the positive experience. The postulate that the rule implies that people will not be willing to pay more for a delay they prefer is validated in experiments 1 and 2.

Experiments 2 and 3 provide further support for the proposed mechanism by demonstrating that the magnitude of disassociation is related to the saliency level of invoking cues for the specific rule, and to saliency of rule-based behavior in general. Experiment 4 demonstrates that when using a different “payment” method, exerting effort, participants do not exhibit the predicted action–preference inconsistency, but in fact, are very consistent in their preference for the delayed concert. Finally, Experiment 5 demonstrates that individuals that tend to follow rules exhibit a greater disassociation.

Decision mechanisms such as “decisions by rules,” provide a new perspective on the ways in which individuals carry out their decision policies. Decision theorists have largely assumed that people make decisions according to a set of preferences or feelings. Such views imply a search for at least a local optimum, or for a close enough estimate when exact algorithms are too costly (use of heuristics). The current work suggests that this is not always the case—decision makers sometimes do not try to consider the best alternative according to their preferences or feelings, but rather act upon pre-imposed decision-rules that are based on moral or social norms and on behavioral guidelines.

References


“Personal Rules (Are Meant to be Broken)”
Drazen Prelec, MIT, Sloan School of Management

The paper presents a theoretical model of personal rules. Examples of personal rules are: (1) to do the dishes right after dinner, (2) to decline collision insurance in car rentals, (3) to answer the phone when it rings, (4) to refuse panhandlers (5) to floss before bed, (6) to return purchases that are (even slightly) damaged or spoiled, (7) to decline consulting assignments. Much of our decision-making is governed by application of personal rules rather than utilitarian cost-benefit calculations, as has been argued by Ainslie (1992), Prelec (1991), and Amir and Ariely (2003), among others.

Personal rules seem to arise in situations where a decision between two alternatives is required, but there is a chronic mismatch (or, in extreme cases, an outright incommensurability) between the attributes involved in the decision (Prelec and Herrnstein, 1991). Because of the mismatch, a person is inclined or tempted to do one thing, but yielding to temptation places some larger values at risk. For example, while the benefits of accepting a lucrative consulting assignment are relatively well-defined, the costs of the taking on the assignment are diffuse, hard to evaluate, and experienced indirectly, through lower performance or satisfaction with other activities. This creates a bias in favor of accepting the assignment. The bias can be counteracted by a personal rule against consulting.

A key paradox about most personal rules is that although on the surface they appear to be an all-or-nothing constraint on behavior (e.g., the rule “refuse consulting assignments” means “always refuse consulting assignments”), in practice they are often broken. Even a person with an anti-consulting rule may encounter consulting opportunities that are too good to refuse. To function and be useful a rule doesn’t have to be followed 100% the time. One can have a rule and break it, so it seems.

In this paper, I develop a self-signaling model of personal rules, extending the general self-signaling framework developed by Bodner and Prelec (2001). The general model rests on a distinction between two types of reward (or utility): reward that flows directly from the causal consequences of choice, whether these consequences are immediate or delayed, and diagnostic reward, which is the pleasure or pain derived from learning something positive or negative about one’s own internal state, disposition, ability, or future prospects. People are presumed to be uncertain about where they stand with respect to these broad attributes, which in turn makes their choices diagnostic. For example, taking a drink before noon is diagnostic of alcoholism; hard exercise is diagnostic of health, willpower, perhaps even financial success, and so on. Anticipation of such diagnostic reward, or fear of diagnostic pain promotes self-control and inhibits self-indulgence.

In the original self-signaling model (Bodner and Prelec, 2001), a choice was treated as a signal about an underlying state (e.g., virtue). In this paper, I assume that in the presence of a personal rule, choice becomes a signal of a long-run propensity to behave in a certain way (e.g., to spend money on luxuries, to neglect family life in favor of work, etc.). In other words, a rule makes a single decision diagnostic about the chances of achieving or failing with respect to some broader objective. Diagnosticity creates a motivation to follow the rule. However, if the level of temptation becomes too high, the rule will indeed will be broken.

The model makes precise the interplay between the diagnostic value of following a rule, and the likelihood that the rule will indeed be followed on any given occasion. In particular, if a rule is ‘strict’ then breaking the rule on a given occasion provides a strong negative signal, while following provides almost no new information. In contrast, if a rule is ‘lax’, then following the rule provides a strong positive signal, while breaking it is not a big deal.

References