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You can't be better than me: The role of the reference point in modulating people's pursuit of wealth

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ABSTRACT

Two experiments showed that participants use the achievements of others as reference points with which to compare their wealth. In turn, being better or worse than referent others exerted influence on participants' tendency to interpret ambiguous scenarios in a self favorable way. Experiment 1 revealed that participants who scored consistently below the average performance were more likely than participants who scored consistently above the average to exploit situations in which the rules were unclear. Experiment 2 provided participants with detailed information about their exact ranking within a hypothetical group of several individuals. Results showed that both participants who ranked above (second) and below (second-last) the average were willing to take advantage of ambiguous situations to improve their status. The level of detail of information about participants' performance allows a more precise evaluations of their achievements and shifts their attention toward the comparison in which they are worse off. Comparisons with relevant others modulate the pursuit of self-interest and greater wealth, and such effect may account for several dynamics in the society.

1. Introduction

Within groups, as well as within the entire society, people are usually ranked on the basis of several criteria (i.e., where they live, their material possessions, or how many friends they have). Social psychologists illustrated how people shape their social identities in terms of the perceived differences between their own similarities and those of other relevant others (Turner, Oakes, Haslam, & McGarty, 1994). Comparisons with others who are not too divergent from oneself drive self evaluations, enable to accurately compare one's abilities and opinions (Festinger, 1954; Goethals & Darley, 1977), and, either intentionally or unintentionally, can influence aspirations and feelings of well-being (Suls, Martin, & Wheeler, 2002). Researchers showed that higher achievements are heavily weighted among one's group (Carlsson, Johansson-Stenman, & Martinsson, 2003; Dreyer, 1953). Such issue denotes a very important factor in everyday life, as, at least in Western societies, financial wealth is certainly one of the major factors used to rank and divide citizens between "winners" and "losers", and allows the evaluation of one's position in the social hierarchy (Adams, 1963, 1965; Messik & Cook, 1983). More importantly, discrepancy in redistribution of wealth affects perception of fairness (van den Bos, Wilke, Lind, & Vermunt, 1998), and exerts a strong influence on citizens' social behavior. Piff, Stancato, Cotè, Mendoza-Denton, and Keltner (2012) argue that

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perception of freedom and economic independence enhance self-focused tendencies, and Gino and Pierce (2009a, 2009b, 2010) explored the effect of inequity on ethical behavior, showing the mediating role of envy and greed in modulating individuals' responses.

Aim of the present paper is to investigate whether the way people perceive their achievements and wealth within a specific group can influence their behavior, and prompt them to take advantage of ambiguous situations to get richer when they are obtaining less than others. Yet, we do not claim that the way people read certain situations influences their willingness to behave in a strictly deceitful manner, although this could be a possible implication of our findings. In this work we argue that people interpret and exploit such ambiguous scenarios in different ways, depending on how the social context influences the evaluation of their performance (or status). For instance, a person may perceive her wealth as inferior to her neighbors or colleagues at work. For this reason she may decide to explore solutions, like paying less taxes, that could allow her to save more money. By doing so she could also enjoy a lifestyle that she would not be able to acquire by paying her total tax liability in full. It must be noted that such shortcomings may not necessarily breach any law; both exploiting loopholes in the system and derive a legitimate interpretation of ambiguous or unclear rules on how to compute taxes represent two possible means by which citizens can declare a lower income without incurring in any violation of their tax system. Despite not being illegal, these solutions could be perceived as lying on the border between what is acceptable and what is considered as unethical. A similar reasoning could be applied to many other economical and social contexts that characterize our society (i.e., a company advertising a product in a slightly misleading, but not completely false way).

1.1. Do people always maximize their payoff?

According to a purely economic point of view people should always strive to maximize their economic gains (von Neumann & Morgenstern, 1947), therefore it should be meaningless to investigate which conditions or cognitive processes are more likely to induce a person to increase her potential wealth. It derives that ambiguous situations should be interpreted in the most financially rewarding way, especially when they allow an increase in one's achievements. Such approach suggests that people should be more prone to engage in self-centered behaviors and focus only on their own outcomes. Hence, they should not be influenced by others' achievements. However, psychologists have shown how several cognitive processes shape people's perception of the decision context (e.g., Kahneman & Tversky, 1979) and suggested that people are averse to inequality (Thompson & Bazerman, 1989) and may use others' achievements as reference points to set their own goals (Rick & Loewenstein, 2008; Zell & Alicke, 2009a).

1.2. Theoretical background

Our research question is built on Kahneman and Tversky's prospect theory (1979) and goal setting theory (Locke & Latham, 1990). Prospect theory represents a descriptive model of economic choice that incorporates individuals' cognitive processes, and it has been widely used to extend and challenge previous findings based on more traditional economic approaches (i.e. expected utility theory). It states that people make decisions according to their *status quo*, which represents their actual asset at the time of the decision. Further, the *status quo* serves as a main reference point individuals adopt when comparing different alternatives and possible outcomes. Prospect theory suggests that, rather than coding outcomes as changes in welfare, individuals will code them either as gains or losses. Outcomes are coded as gains when they fall *above* the status quo and allow a person to improve her asset. On the contrary, they are coded as losses if they fall *below* the status quo. A behavioral repercussion, and empirical finding of the utility function, is that people are risk-seeking when in the loss domain, and risk-avoidant in the gain-domain.

Goal setting theory (Locke & Latham, 1990) states that setting difficult and specific goals leads to higher motivation, commitment, desire of achieving better results, and focuses attention (Gellatly & Meyer, 1992) Specifically, it has been shown that a greater effort is put in carrying out the task, and a better performance is also achieved. In building our predictions, we adopt recent developments in goal setting literature. Consistent with Heath, Larrick, and Wu (1999) and Schweitzer, Ordóñez, and Douma (2004) we suggest that goals serve as reference points for people's behavior. Heath et al. (1999) posit that goals inherit the properties of Kahneman and Tversky's value function (see also Hoffmann, Henry, & Kalogeras, 2012), and are capable to explain individuals' responses to goal setting contexts. These authors argue that the three main features of the value function may reflect goal-based behavior. For instance, goals serve as reference points and split the set of outcomes into gains and losses. Ordóñez and Wu (2010) describe the situation of a student who sets for himself the goal of reading 100 pages by the end of the day; any pages completed short of one hundred will be perceived as a failure, therefore falling in the negative domain of the value function. These authors also suggested that the closer the student will be to the goal (reading 100 pages), the more he will be willing to put effort and motivation in pursuing his goal (see also Kivetz, Urminsky, & Zheng, 2006). What stated above is in line with the assumption of *diminishing sensitivity* (Kahneman & Tversky, 1979), that is, people should be more motivated to reach their goal when reading pages 95–100 than 30–35 of a 100 pages book. Recent work by Ordóñez, Schweitzer, Galinsky, and Bazerman (2009) shed light on the dark side of goal setting, and data from Cameron and Miller (2009) suggest that people who perceive an outcome as a loss are more prone to engage in unethical behavior compared to those who perceive an outcome as a gain.