



Small economic losses lower total compensation for victims of emotional losses



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ABSTRACT

This article explores an important yet understudied topic – the lay public’s opinion of fair compensation for victims of emotional losses (emotional suffering). Four experiments, covering diverse contexts, find an anomalous phenomenon: laypeople would award *less* compensation to someone incurring an emotional loss if the person also incurs a small economic loss than if the person incurs little or no economic loss. We explain the effect using a reasonable-anchor account: if the victim incurs little or no economic loss, people will base their assessment of total compensation on what they consider the emotional loss is worth; if the victim also incurs a non-trivial economic loss, people will anchor their assessment on the economic loss, and if the economic loss is small, the compensation will also be small. In other words, the presence of an economic loss “crowds out” the emotional loss in assessment of total compensation. This research enriches our knowledge about how laypeople make compensation decisions for emotional losses, and when they use economic losses as anchors.

1. Introduction

Many of the losses individuals suffer are emotional rather than economic. By emotional losses we mean emotional sufferings (e.g., fear, anxiety, and sorrow), inflicted, intentionally or unintentionally, by others. A construction worker witnessing an accident may experience distress; a pedestrian hit by a careless cyclist may experience fear; a student participating in a deception-laden experiment may experience resentment. Emotional losses have grim consequences; they lower the subjective wellbeing of the affected individuals.

How much, if at all, should the affected individuals be compensated for their emotional loss? This question has been studied from the legal perspective (Avraham, 2005; Bornstein, 1998; Bublitz & Merkel, 2014; Croley & Hanson, 1995; Niemeier, 2004; Schatman, 2009; Sunstein, 2008; Vallano, 2013; Young, 2008). For example, according to American tort laws, emotional distress should be compensated for, and can be compensated for even without proof of pecuniary loss (American Law Institute, 2012).

Nevertheless, it is important also to study this issue from the psychological perspective, specifically, to study what the lay public consider fair compensation for emotional loss. There are multiple reasons why it is important. First, many emotional losses are beyond the purview of the law, either because these losses do not involve legal

violations or because they are not severe enough to be brought to the court. Consequently, compensation for such losses often depends upon the judgment of laypersons serving as mediators, such as the recommendation of mutual friends of the parties in dispute, or the decision of an ad hoc committee in a firm.

Second, even for losses that are brought to the court, compensation is usually recommended by jurors, most of whom are also laypersons, not legal experts. Further, even if the jurors know and follow the law, there is still ample leeway to determine the award amount, because the law for suffering damages is highly flexible; for the same emotional loss, one may legally award tens of thousands of dollars or nil (Niemeier, 2004).

Finally, understanding the lay attitude toward emotional loss sheds light not only on how mediators make compensation recommendations, but also, more broadly, on how laypeople treat emotional (versus other) factors in decisions in general.

In summary, compensation for emotional losses is not just a legal issue - it is also a psychological issue. This research studies this issue from the psychological perspective; in particular, it studies the lay psychology about emotional loss.

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2. Theory and the less-for-more effect

In this research, we focus on monetary compensation. We argue that the presence of a small economic loss can lower the total compensation for the victim of an emotional loss. To illustrate, consider two alternative situations: one in which the victim incurs both an emotional loss and an economic loss, and one in which the victim incurs only an emotional loss. Both of these situations are common in real life. For example, suppose an employee sent by her company to work in a dangerous neighborhood encounters a mugger and is psychologically devastated. Consider two alternative scenarios: in one, the mugger takes away the employee's watch, so she incurs both an emotional loss and an economic loss; in the other scenario, the mugger fails to take anything away, so the employee incurs only an emotional loss. A disinterested ad hoc committee (consisting of laypersons) is called upon to decide how much the company should compensate the employee, if at all. What would the compensation be in each case?

Normatively, *ceteris paribus*, compensation should be higher in the emotional-loss-plus-economic-loss situation than in the emotional-loss-only situation. The reason is simple: the more one loses, the more one should be compensated. But we predict that, in reality, laypeople may award lower total compensation in the emotional-loss-plus-economic-loss situation than in the emotional-loss-only situation. Why?

Unlike economic loss, emotional loss is hard to evaluate or therefore malleable. Nevertheless, people are not clueless about how much an emotional loss is worth. When a victim incurs only an emotional loss, people who make compensation decisions will base compensation on how much they *feel* the emotional loss is worth. However, if the victim also incurs an economic loss, people will base their compensation decision on the economic loss. The idea that people would base their compensation decision on the concurring economic loss is based on the extensive existing literature showing that people tend to anchor their judgment of an uncertain quantity on an externally given value, and, while they may make some adjustment, the adjustment is usually insufficient (e.g., Epley & Gilovich, 2006; Fitts & Seeger, 1953; Hsee, Dube, & Zhang, 2008; Slovic, Griffin, & Tversky, 2002; Tversky & Kahneman, 1974).

Drawing on the anchoring literature, we make the following predictions for compensation judgments. When no economic loss exists, people will base their assessment of the total compensation for the victim of an emotional loss on what they perceive the emotional loss is worth. However, when an economic loss exists, people will anchor their assessment of the total compensation on the economic loss. Thus, we predict that people will exhibit an anomalous “less-for-more effect”: They will award less total compensation if there exists an economic loss and the economic loss is small relative to the emotional loss than if there is no economic loss at all. In other words, the presence of a small economic loss drags down total compensation.

We further propose that the effect postulated above is not simply the traditional anchoring effect. In the traditional anchoring effect, an external number, no matter how extreme or implausible it is, can influence one's judgment of an uncertain value (e.g., Jacowitz & Kahneman, 1995; Mussweiler & Strack, 2001). For example, one's judgment of the year of Einstein's first visit to USA could be influenced by an implausible anchor of 1992 even more than by a plausible anchor of 1939 (Mussweiler & Strack, 1999).

Based on the traditional anchoring-and-adjustment perspective (Tversky & Kahneman, 1974), later research proposes the selective accessibility model to explain the process behind the anchoring effect (Strack, Bahnik, & Mussweiler, 2016; Strack & Mussweiler, 1997). The selective accessibility model supports that implausible anchors can produce larger effect than plausible ones. That is because when presented with implausible anchors, people adjust from the implausibly extreme values to the boundary of plausible values, and confirmatively test the hypothesis that the suitable answer is equal to the adjusted value. As a result, information supporting this hypothesis becomes

more accessible. Since the boundary of plausible values is the extreme of the possible answers, implausible anchors are likely to have a strong assimilation effect than plausible ones. Evidence has been found in several studies (Mussweiler & Strack, 1999, 2001; Strack & Mussweiler, 1997).

However, other research suggests that implausible anchors may exert less influence than plausible anchors (e.g., Blankenship, Wegener, Petty, Detweiler-Bedell, & Macy, 2008; Chapman & Johnson, 1994; Wegener, Petty, Blankenship, & Detweiler-Bedell, 2010; Wegener, Petty, Detweiler-Bedell, & Jarvis, 2001). Wegener et al. (2001) related the anchoring effect to the process of attitude change. According to this perspective, increases in anchor extremity, beyond the range of plausible values, can lead to a smaller anchoring effect. For example, in a study, the authors asked participants to make eight estimations (e.g., “The record high temperature for a day in Seattle, Washington,” and “The average starting annual salary of college graduates in the United States”) after presenting them with either extreme or moderate anchors. They found that the anchoring effect was less evident when extreme anchors were used than when moderate anchors were used. In addition, research finds that expert knowledge moderates the effect of implausible anchors on numerical evaluations (Loschelder, Friese, Schaerer, & Galinsky, 2016; Mussweiler & Strack, 2000).

Building on this body of research, we propose that not any economic loss would anchor the judgment of total compensation. Although lay people do not know exactly how much the victim should be compensated for, common sense tells them that it should not be too small. Therefore, in order for an economic loss to produce an anchoring effect, people must consider it “reasonable,” namely, a reasonable basis for making a compensation decision. If the economic loss is so trivial that the judge does not perceive it as a reasonable basis for judging total compensation, he or she will just treat it as if it did not exist. Because a small economic loss anchors the judgment of total compensation whereas a trivial economic loss does not, the total compensation will be smaller if the economic loss is small than if it is trivial.

In short, our hypothesis is that people may award less total compensation to the victim of an emotional loss if the victim also incurs a small but non-trivial economic loss than if the victim incurs no economic or only a trivial economic loss.

In this research, we do not presume how a small economic loss is considered small or trivial; rather, we ask pretest participants to answer the questions. An economic loss in a given case is deemed small if pretest participants rate it as small relative to the emotional loss in that case. An economic loss is deemed trivial if pretest participants consider it too small to serve as a reasonable basis for judging total compensation.

We summarize our theory in Fig. 1. The figure describes how much total compensation people would award the victim of an emotional loss as a function of how much economic loss the victim also incurs. Normatively, the total compensation should be a monotonically positive function of the extra economic loss, namely, holding the emotional loss constant, the greater the economic loss, the more the total compensation. But according to our theory, the relationship is not always positive. The total compensation will be lower if the economic loss is small rather than trivial or non-existent, exhibiting the less-for-more effect. However, if the economic loss is moderate or large relative to the emotional loss, compensation judgments will still be anchored on the economic loss, but the less-for-more effect will not be observed because the economic loss is no longer smaller than the emotional loss.

3. Overview of studies

Below we report four studies, which covered contexts ranging from compensation for employees and research participants to compensation for car-accident victims. Of these studies, Study 1 included a non-economic condition and a small-economic-loss condition and tested the proposed less-for-more effect. Study 2 sought to replicate the finding of

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