



## Original Article

## How far does it feel? Construal level and decisions under risk



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## ABSTRACT

Research has shown that framing decisions as gains or losses distorts human judgment. Human judgment is also assumed to be influenced by the actual level of construal. Whether decisions are construed in a more detailed manner (low level construal) or in a more abstract manner (high level construal) can depend on perceived psychological distance. In the present studies, we examined the influence of framing and psychological distance on risk taking. In three studies with students ( $n=65$ ), physicians ( $n=60$ ), and hotel managers ( $n=39$ ), we found evidence that construal level influences risk seeking in gain situations, but not in loss situations. Furthermore, the framing effect could be replicated in psychologically close situations, and was eliminated (Studies 1 and 2) or reversed (Study 3) in psychologically distant situations. Our findings illuminate the interplay of framing and construal level, and points out their applicability in organizational decision making.

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What influences professional decision making? According to theories of bounded rationality (e.g., Selten, 2001; Simon, 1955, 1991), people do not always carefully analyze decision problems, but often rely on intuitions and heuristics when making decisions. Based on this differentiation, several researchers have proposed two cognitive systems: While system 1 is intuitive, fast and automatic, system 2 is deliberative, slower and controllable (see Evans, 2009 for an overview; Kahneman, 2003; Stanovich & West, 2000). Research suggests that relying on intuitions and applying rules of thumb (heuristics) can improve decision making (Gigerenzer, Todd, & The ABC Research Group, 1999), but can also lead to certain biases that distort judgments (e.g., Tversky & Kahneman, 1974).

In this article we focus on the heuristics-and-biases program as Tversky and Kahneman (1974) have introduced it. Conclusions from their research have made it outside of science into practical decision making and have led to awareness for at least some of these biases. For example, due to an increasing amount of popular press on the topic, decision makers might be aware of the fact that unrelated pieces of information (anchors) can influence subsequent decisions, or that intensive press coverage makes events seem more likely than they really are (Kahneman, Lovallo, & Sibony, 2011; Tversky & Kahneman, 1974). Most decision makers might

also know that the framing of decisions in terms of gains and losses can lead to contradicting decisions in objectively identical problems. This phenomenon has become known as the framing effect (Tversky & Kahneman, 1981).

But does it also make a difference whether a decision is made for oneself, a close friend, or an employee? Will a manager take more risks when he makes a decision for a branch in another country than when making the same decision for a branch in his home country? The interplay of psychological distance and risk taking in professional settings is not often explored. Therefore, we investigated these questions in three studies that illuminate how practitioners' decisions under risk might be distorted.

Decisions under risk have received special attention by Slovic (2010) who assumes that risk perception is usually accompanied by some form of emotion or affect. The perception of risks as feelings thus leads to a reliance on intuition and a neglect of objective probabilities when judging risks (e.g., Slovic, 2010; Slovic & Peters, 2006; Slovic & Västfjäll, 2010). This has, for example, been demonstrated for simple investment choices: While healthy people lost money, patients who lacked affect due to neurological impairment did not (Shiv, Loewenstein, Bechara, Damasio, & Damasio, 2007). De Martino (2006) points out that affect also influences the framing effect, and experiments using magnetic resonance imaging suggest that the framing effect is stronger among people who strongly rely on their intuitions (Kahneman & Frederick, 2007). Based on these findings, we argue that risk taking behavior is a form of intuitive decision making and investigated how it is affected by the level of construal.

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## 1. Construal level and decision making

Construal level theory of psychological distance is based on the assumption that only the here and now can be directly experienced; the future, other places and other people are believed to be represented in a more abstract way such as imaginations, memories, plans or hopes. Therefore, the theory states that objects, events or individuals are represented as either close or distant. The reference point is thereby the self in the here and now, from which an object can move away in terms of time, space, social distance or hypotheticality. While psychological distance has been linked to abstract, high level construals like broad concepts of the object, psychological closeness has been linked to concrete, low level construals such as discrete features of the object (Trope & Liberman, 2010). This also works vice versa in the way people judge abstract objects to be more distant (Bar-Anan, Liberman, & Trope, 2006).

Empirical studies support the notion that psychological distance is associated with decision making by activating a certain level of construal (Trope & Liberman, 2010; Trope, Liberman, & Wakslak, 2007). For example, participants who were asked to give advice to another person concerning a job offer that was perceived as distant, gave more weight to abstract attributes (e.g., personal satisfaction) than concrete attributes (e.g., salary; Kray, 2000). Another study demonstrated that participants were less prone to the sunk cost bias (continuing to invest in an already failing project; Arkes & Blumer, 1985) when the investing company was located in a distant as opposed to a near location (Wakslak & Liberman, 2006). Research in consumer behavior has demonstrated that people prefer to wait for a product delivery and save the fee when the product is described in a more abstract manner, as opposed to a concrete manner (Malkoc, Zauberan, & Bettman, 2010).

Especially important decisions (e.g., high stake decisions) usually involve thinking about consequences, and are thus suggested to be influenced by the activated level of construal (Kim, Schnall, & White, 2013). Trope and Liberman (2010) highlight that inducing a concrete mindset (low level construal) shifts the focus onto the feasibility of an action (e.g., probability of a positive outcome), while an abstract mindset (high level construal) shifts the focus on its desirability (e.g., attractiveness of the outcome). For example, in time-dependent gambling tasks participants preferred gambles with high probability in the near future, but gambles with a high outcome in the distant future. As a conclusion, the authors propose that temporal distance should lead to more risk seeking due to a focus on the desirability of an outcome (Sagrignano, Trope, & Liberman, 2002). Getting back to the framing effect, Trautmann and Van de Kuilen (2012) point out that people intuitively interpret prospects in risky decisions as either desirable or feasible. The interplay of construal level and risk seeking has recently been further investigated in a series of studies that experimentally manipulated the level of construal by different ways of priming. Participants who were primed with a high (versus low) construal level engaged in more risk taking and judged risks as less probable (Lermer, Streicher, Sachs, Raue, & Frey, 2014a; Streicher, Lermer, Sachs, & Frey, 2012). This is also in line with findings by Wakslak and Trope (2009), who demonstrated that participants in a high level construal mindset made lower probability judgments in neutral tasks than participants in a low level construal mindset.

The current studies add to these findings by investigating the influence of psychological distance in risky decision tasks, which is believed to better reflect practical decision making than a priming of construal level. Furthermore, the current studies not only take a look at gain situations, but also at loss situations and especially focus on decision making of practitioners. It has repeatedly been demonstrated that people engage in more risk seeking behavior when confronted with potential losses as opposed to potential gains. This behavior is known as loss aversion and assumed to be

grounded on people's hope to avoid the unpleasant experience of loss (Kahneman & Tversky, 1979; Tversky & Kahneman, 1992). While we have introduced research that investigated the influence of construal level on risk seeking in gain situations, there is a lack of research looking at the influence of construal level in loss situations. Shelley (1991), for example, explored whether a time delay in losses affects risk seeking and could not draw a clear picture. A series of field experiments on risk communication demonstrated that persuasive loss framed messages were stronger when paired with concrete features, while gain framed messages were stronger when paired with abstract features (White, MacDonnell, & Dahl, 2011). Furthermore, loss framed messages activated a more concrete mindset, while gain framed messages activated a more abstract mindset. In a similar line of research, the impact of persuasive gain framed messages was stronger when they concerned socially distant as opposed to socially proximal entities (Nan, 2007). Interestingly, in this experiment, the impact of loss-framed messages was not influenced by psychological distance. These findings could be explained by the noted assumption that people focus on the desirability of an outcome when in an abstract mindset (e.g., attractive gain), and on its feasibility when in a concrete mindset (e.g., chance of avoiding loss). Therefore, we expect an opposite effect of psychological distance in loss situations compared to gain situations. This is further supported by experiments connecting regulatory focus theory (Crowe & Higgins, 1997) and construal level theory: Participants in a concrete mindset preferred a prevention focus (avoiding loss) over a promotion focus (attaining gains; Förster & Higgins, 2005; see Bryant & Dunford, 2008 for an overview).

Decision makers are constantly confronted with different dimensions of psychological distance. Their decisions can have immediate (time: proximal) or long-term consequences (time: distal); can concern the people around them (space: proximal) or people in another country (space: distal); or can affect themselves, their company (social distance: proximal), or other companies (social distance: distal). Numerous laboratory and field experiments have already shown that there are discrepancies in decision making based on whether the decision is made for oneself versus someone else (Garcia-Retamero & Galesic, 2012; Hsee & Weber, 1997; Polman, 2012; Stone, Yates, & Caruthers, 2002), for now versus later (Malkoc, Zauberan, & Ulu, 2005; Pronin, Olivola, & Kennedy, 2007; Sagristano et al., 2002), or for here versus a distant location (Goodman & Malkoc, 2012). Additionally, empirical research has suggested that the perceived distance can also be influenced indirectly. An example highly relevant for the professional context is politeness. Politeness creates social distance and distance, in turn, causes people to act more politely (Stephan, Liberman, & Trope, 2010). The manner in which clear facts are presented can also lead to a variation in perceived distance. Targets or events presented in larger numbers and smaller units, such as 7 days, were shown to be perceived more concrete and as more dangerous than smaller numbers and larger units, such as 1 week (White & Kwan, 2013). Therefore, manipulating construal level via psychological distance is highly reflecting real life situations. Psychological distance is thus assumed to directly influence the level of construal and, in turn, guide judgment and decision making (Bar-Anan et al., 2006; Fujita, Henderson, Eng, Trope, & Liberman, 2006; Trope et al., 2007).

In the present research, we investigated the influence of construal level on intuitive decision making in risky choice problems by manipulating psychological distance, because distance dimensions are more or less inherent in every decision. In different decision problems, we varied several dimensions of psychological distance such as social, spatial and temporal distance. In each problem, two or three of these dimensions were combined in a way that was still realistic for the participants. We aimed at exploring how

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