



Dazed and confused by choice: How the temporal costs of choice freedom lead to undesirable outcomes

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ABSTRACT

We propose that individuals underestimate the costs of making choices relative to the benefits of finding the best option. Specifically, we demonstrate that research participants make systematic mistakes in predicting the effect of having more, vs. less, choice freedom on task performance and task-induced affect. Even when participants have the information to understand that the costs of choice freedom outweigh its benefits, they still predict that choice freedom will lead to better performance and more positive affect. As a result, those who have the option to choose exercise it, yet end up performing worse and feeling worse than those who do not have that option.

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Introduction

People are often willing to undergo extensive searches in order to find the “best” option. For example, travelers shop around to find the most satisfactory tickets, investors wait for the most promising market conditions before picking stocks, and singles engage in intensive dating when looking for the perfect spouse. Research has, however, demonstrated that search processes among choice-set options often involve costs (Bettman, Luce, & Payne, 1998; Payne, Bettman, & Johnson, 1993). In certain circumstances, the costs associated with the time spent searching for the best option may even be greater than the benefits that option provides, resulting in faulty decisions and undesirable outcomes: travelers may end up paying a higher price for the same ticket, investors may forgo significant gains, and singles may become too old to marry. In this paper we focus on the temporal costs of choosing and investigate whether individuals are able to discern situations in which freedom of choice should be relinquished because its costs are greater than its benefits. We conclude that people tend to underestimate the temporal costs of choosing relative to the benefits of finding the best option. Consequently, decision makers insist on exercising their choice opportunities even when these opportunities lead to poor outcomes.

Benefits and costs of choosing

Suppose that a person wants to invest \$10,000 cash in a 1-year certificate of deposit (CD) at a particular bank and that the rate at which this bank offers its CDs changes every week. Now consider two alternative scenarios. In the first (let us refer to it as the “less-freedom” condition), the investor must make a decision in the next 4 weeks. In the second (the “more-freedom” condition), the investor can wait as long as she likes in order to pick the rate she considers to be the most favorable.

From the perspective of rational choice theory, more-freedom is always better than less-freedom because it allows decision makers to maximize utility by finding the best match between well-defined individual preferences and available alternatives (Hotelling, 1929). From a psychological perspective, more-freedom is better than less-freedom even when individual preferences are not firmly established, because it motivates decision makers to subjectively bolster their satisfaction with the choice outcomes (deCharms, 1968; Festinger, 1957; Langer, 1975; Shafir, Simonson, & Tversky, 1993).

Despite these benefits, more choice freedom involves greater cognitive and emotional costs (Bettman et al., 1998; Payne et al., 1993). The cognitive costs relate to the mental energy spent in selecting the choice-set options and in searching for the best option within a given set (Shugan, 1980). For example, our investor would need to exert greater cognitive effort in order to analyze and compare the relative attractiveness of an indefinite set of rates

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than of a more defined set. This greater cognitive effort may result in lower-quality outcomes if she becomes overwhelmed by the amount of information provided (Malhotra, 1982) and resorts to choice heuristics that compromise decision accuracy to conserve mental energy (Payne et al., 1993).

The emotional costs of more choice freedom concern the greater psychological distress of forgoing a larger number of options such as, in the case of our investor, the interest rates offered during an indefinite number of weeks vs. the interest rates offered during a limited number of weeks. Whenever a dominating alternative is not available, the act of choosing one option and contemporarily giving up others causes decision makers to experience loss aversion and emotionally difficult trade-offs, which reduce the attractiveness of each option (Brenner, Rottenstreich, & Sood, 1999; Hsee & Leclerc, 1998; Luce, 1998), as well as a sense of postchoice discomfort, self-blame, and regret (Carmon, Wertenbroch, & Zeelenberg, 2003; Ritov & Baron, 1995). As with the cognitive costs, these emotional costs have been shown to decrease decision quality, leading to choice avoidance and lower outcome satisfaction (Dhar, 1997; Iyengar & Lepper, 2000; Luce, 1998).

In addition to investigating cognitive and emotional costs, researchers have also examined costs that are associated with the time required for the decision-making task, or the monetary costs of searching for information and forgoing alternative opportunities (Stigler, 1961; Weitzman, 1979). Although optimal search models in economics assume that individuals would stop searching for the best option if the costs of finding this option outweighed its expected benefits, research in psychology has shown that decision makers often make faulty decisions because they fail to understand temporal costs. For instance, people delay decision-making in order to collect information that is unlikely to affect the decision itself (Bastardi & Shafir, 1998; Tversky & Shafir, 1992) and, when confronted by difficult choices, they prolong the search process to the extent that they will obtain suboptimal outcomes (Huberman, Iyengar, & Jiang, 2007). Our investor's search for the best investment opportunity may, therefore, result in unnecessary losses due to information-gathering costs and forgone interests.

Besides these direct search and opportunity costs, time influences the quality of decisions through its indirect effect on emotional and cognitive responses (Wright & Weitz, 1977). Decision makers who are under time pressure to find the best option are likely to experience negative emotions such as distress and anxiety (Janis & Mann, 1977). Stress, in turn, has been found to reduce available mental resources, generate distracting thoughts, and result in poor decision-making (Hutchinson & Alba, 1991; Keinan, 1987; Sarason, 1984). If our investor peruses her investment opportunities for too long, she may end up choosing a suboptimal investment rate because of the psychological pressure to reach a decision and the consequent distracting anxiety.

Cost-benefit estimation and preference for choice

The empirical evidence reviewed above shows that different costs related to choice freedom—cognitive, emotional, and temporal—may be a direct or indirect cause of faulty decisions. Based on this evidence it seems plausible to predict that individuals will sometimes accept restrictions to their choice freedom. On the contrary, however, recent findings suggest that people are reluctant to limit their choice freedom even when confronted by the detriments of choice. For example, a series of studies conducted by Chernev (2006) revealed that respondents preferred choosing from a larger rather than a smaller assortment despite realizing that the greater choice freedom offered by the larger set came at the cost of a more difficult selection process. Research has also found that individuals prefer making their own choices to having the same

choices made by others even though in some circumstances self-made choices generate lower satisfaction than other-made choices (Botti & McGill, 2006). Similarly, Griffin and Broniarczyk (2010) showed that the quest for the best choice-set option can lead decision makers to continue searching even when this search yields diminishing returns to satisfaction.

How can we explain peoples' insistence on exercising choice freedom in the face of its negative consequences? The findings of a study conducted by Botti and Iyengar (2004) may provide an initial insight into this paradox. Participants presented with a choice-set including four pasta dishes that were either all liked or all disliked predicted that they would be more satisfied with a self-chosen pasta than with a pasta chosen by a friend. This prediction proved, however, to be erroneous. Whereas participants confronted by all appetizing pastas reported to be more satisfied with the self-chosen than with the friend-chosen pasta, those confronted by unappetizing pastas reported to be less satisfied as a result of their own, as compared to their friend's, choice. We believe that this incongruence between predictions and assessments for participants choosing from among undesirable options, relative to those choosing from among desirable options, can be explained by the fact that they experienced greater cognitive and emotional costs (Miller, 1944) but were unable to correctly weigh the negative impact of these costs relative to the benefits of choosing the best (or least worse) pasta.

Research on power provides theoretical support to this explanation. The exercise of power, which involves the control of one's own and others' valuable resources, has been found to increase attention to rewarding information (Anderson & Berdahl, 2002). High-power individuals, therefore, focus on the potential positive, rather than negative, payoffs of a risky decision (Anderson & Galinsky, 2006) and minimize the predicted negative experience of losses but not the predicted positive experience of gains (Inesi, 2010). Power and choice are theoretically related because they are both associated with the construct of control (deCharms, 1968; Fast, Gruenfeld, Sivanathan, & Galinsky, 2009). Hence, these results substantiate our proposition that people may incorrectly weigh the relative benefits and costs of choosing.

We therefore theoretically contribute to prior research on judgment and decision-making by proposing a novel explanation for people's preference for choice freedom in spite of its detriments. We argue that people systematically underestimate the costs of choice compared with its benefits, resulting in the belief that more choice freedom leads to better outcomes than less choice freedom. This belief is true in many cases, either because choosers are indeed able to identify the best match between their preferences and the available alternatives (Hotelling, 1929) or because they subjectively increase the value of their decision outcomes (deCharms, 1968; Festinger, 1957; Langer, 1975; Shafir et al., 1993). Yet, in some circumstances the costs of choice freedom may exceed the benefits of selecting the most satisfying option.

Like many other biases, our proposed cost-benefit misestimation is a result of overgeneralization. For example, people automatically associate high input quantities with high outcome quality, even though these two factors are often negatively related (Chin-ander & Schweitzer, 2003). Similarly, they may automatically associate freedom of choice with best decision outcomes even when the costs of choice are in fact greater than its benefits.

The effects of misestimating the temporal costs of choice freedom

In this paper we specifically examine the direct and indirect effects of the temporal costs of choice freedom. In terms of our initial example, the direct temporal costs are the monetary losses in-

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