Social Decision-Making under Conflict of Interest: Scope-Insensitivity and the Neglect of Cumulative Losses Borne by Others

Meir Barneron

Ilan Yaniv
Shoham Choshen-Hillel
Chen Pundak

The Hebrew University of Jerusalem

The Story About a Bus Driver Who Wanted To Be God

By Etgar Keret

"This is the story about a bus driver who would never open the door of the bus for people who were late. It was a matter of ideology…"

According to that ideology, the sum of the 30-second delays for all 60 passengers on the bus, is 30 minutes – far more than the 15 minutes that the late passenger will have to wait for the next bus.

"When it came to choosing between smiles and thanks from the person who came late, and the good of society, this driver knew what it had to be."

Introduction

Realistic social decision settings:

❖ Physicians / Pharmacists
❖ Bankers

All share similar characteristics:
❑ A favorable outcome for the decision-maker
❑ Numerous persons affected
❑ Reduced utility for each person
❑ Cumulative loss: Size of the loss per person * Number of persons affected

Research question

How do decision-makers weigh the benefits and costs for self and others in making such social decisions?

In particular, how do we think about the welfare of groups?

Theory

In social decision-making, empathy plays a central role (Kogut & Ritov, 2005).

Humans represent a set of elements (a group) in terms of a prototype (Posner & Keel 1968).

Empathy is directed towards a <u>prototypical member</u> of the group (Kahneman et al. 1999).

The prototype does not contain information about <u>the size</u> of the group.

→ Scope-insensitivity (Hsee & Rottenstreich, 2004; Nordgren & McDonnell, 2010; Slovic, 2007)

Background

Desvousges et al. (1992): People were willing to make about the same donation for saving either 2,000 or 200,000 birds.

Hypothesis

Decision-makers
- ❖ Consider the size of the loss borne by each person
- ❖ Neglect the number of persons affected
- ❖ Neglect the cumulative loss engendered

When a large loss is distributed among many persons, each may suffer only a small one.

Suppose decision-makers are scope-insensitive and consider only the prototypical individual loss.

The individual loss may look insignificant relative to their own gain.

Decision makers may behave selfishly and still maintain a positive image of themselves.

Outline

The hypothesis was tested in three social settings:

❖ Judging others' social decisions (Study 1)

❖ Recommending an option to others (Study 2)

❖ Making a decision for self and others (Study 3)

Judging others' social decisions:
Study 1

"A claim was filed in court against A.K., the owner of an investment firm.

It was claimed that as a result of fraud committed by A.K. **ten investors lost one hundred thousand shekels each.**

A.K. had internal information revealing that the stocks in his possession were going to lose their value...

In order to prevent his own financial loss, A.K. invests ten of his clients' money in those stocks, thereby transferring the losses to the clients...

As expected, the value of the stocks dropped...

Each investor has assets that are worth millions of shekels..."
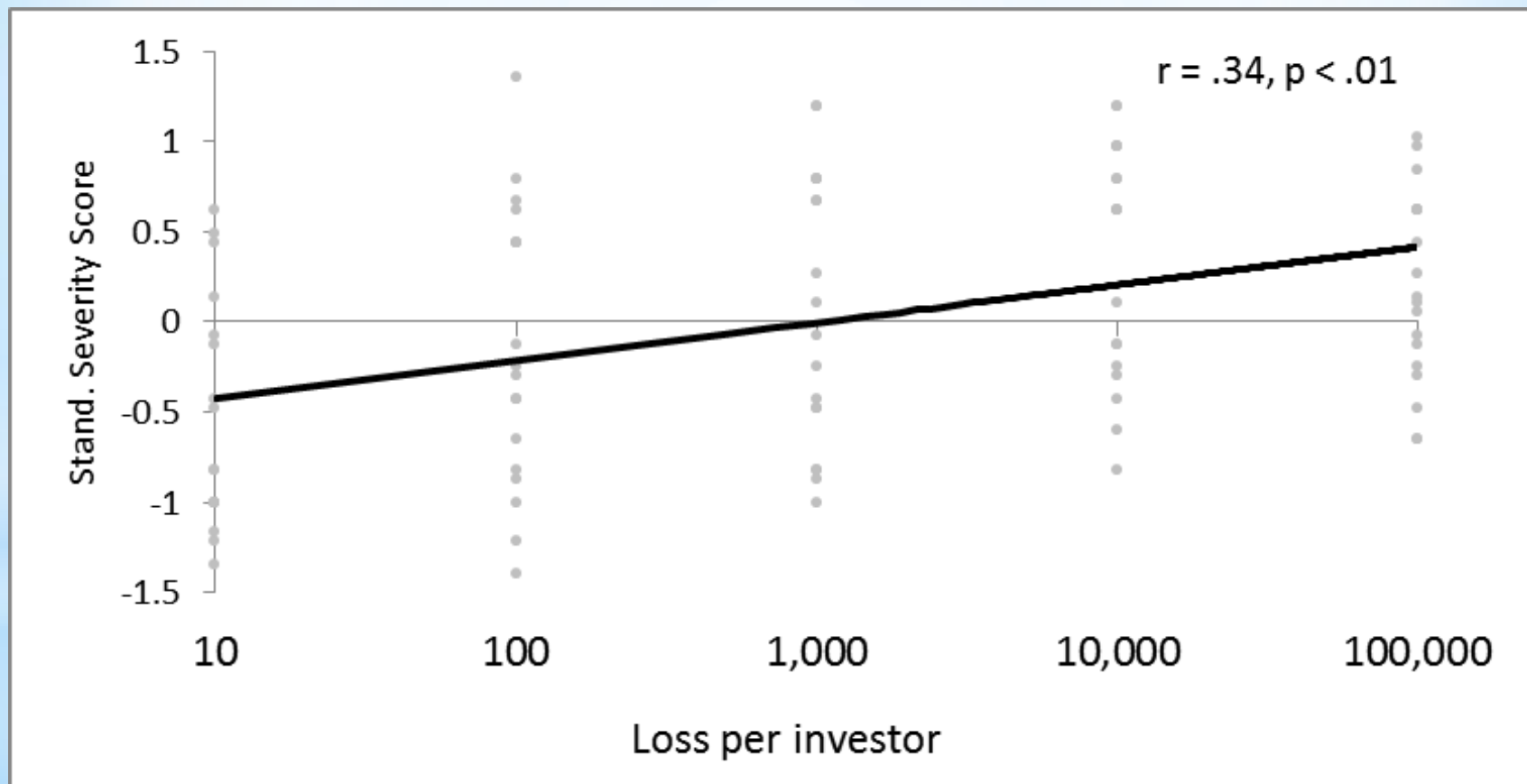
Judging others' social decisions:
Part 1 - design

Participants (n = 99) rated:
(i) How severe was the fraud committed by A.K.?
(ii) How many years in prison should A.K. be sentenced to?

Five between-subject conditions

Conditions	Loss per investor (shekels)	No. of investors affected
1	10	1,000
2	100	1,000
3	1,000	1,000
4	10,000	1,000
5	100,000	1,000

Judging others' social decisions:
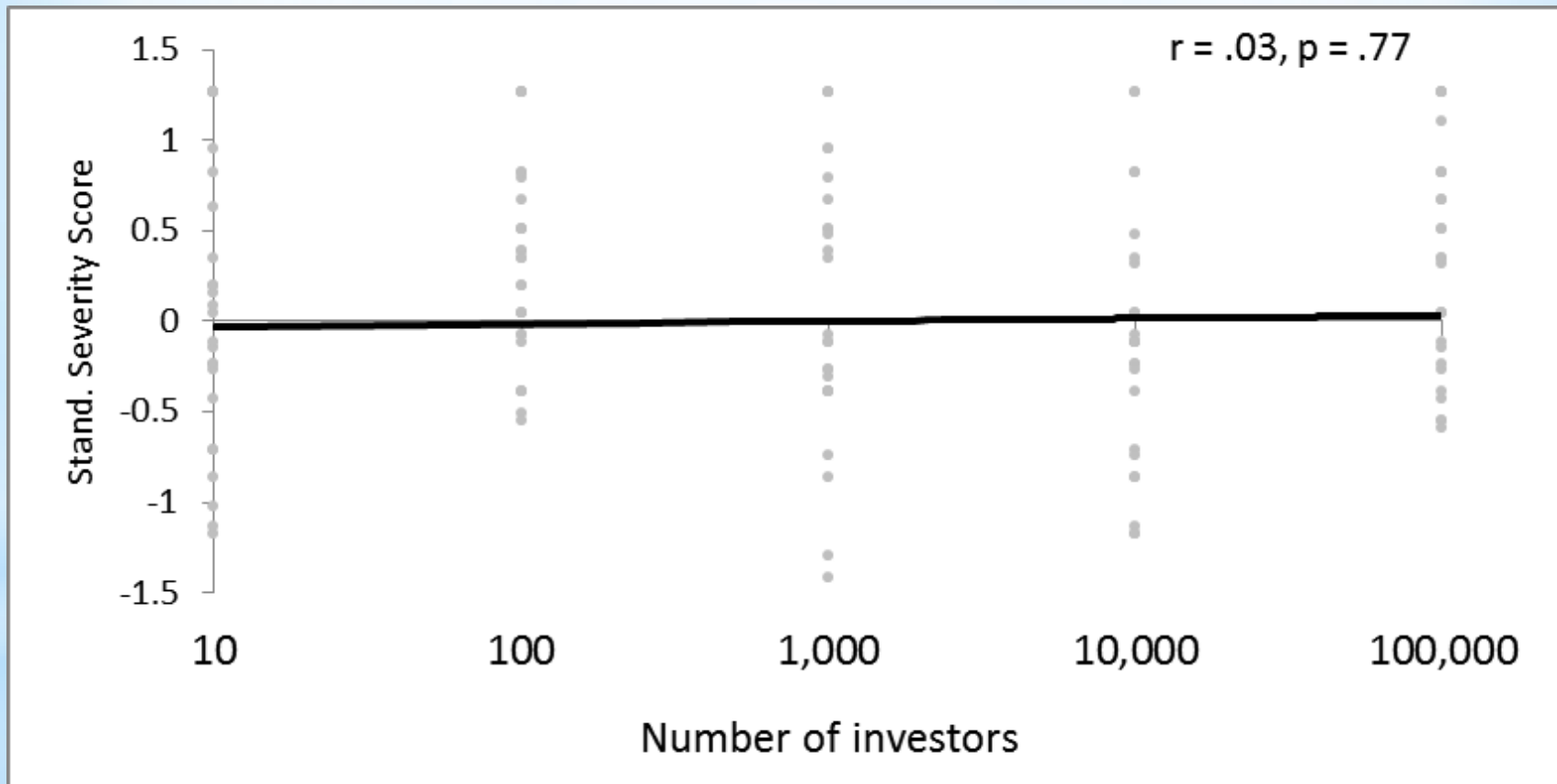# Part 1 - results

Judging others' social decisions:
Part 2 - design

Same financial scenario (N=141)

Conditions	Loss per investor (shekels)	No. of investors affected
1	1,000	10
2	1,000	100
3	1,000	1,000
4	1,000	10,000
5	1,000	100,000

Judging others' social decisions:
Part 2 - results

Judging others' social decisions:
Part 3 - design

Same financial scenario (N=150)

Conditions	Loss per investor (shekels)	No. of investors affected
1	10	100,000
2	100	10,000
3	1,000	1,000
4	10,000	100
5	100,000	10

Cumulative loss: 1,000,000 shekels

Judging others' social decisions:
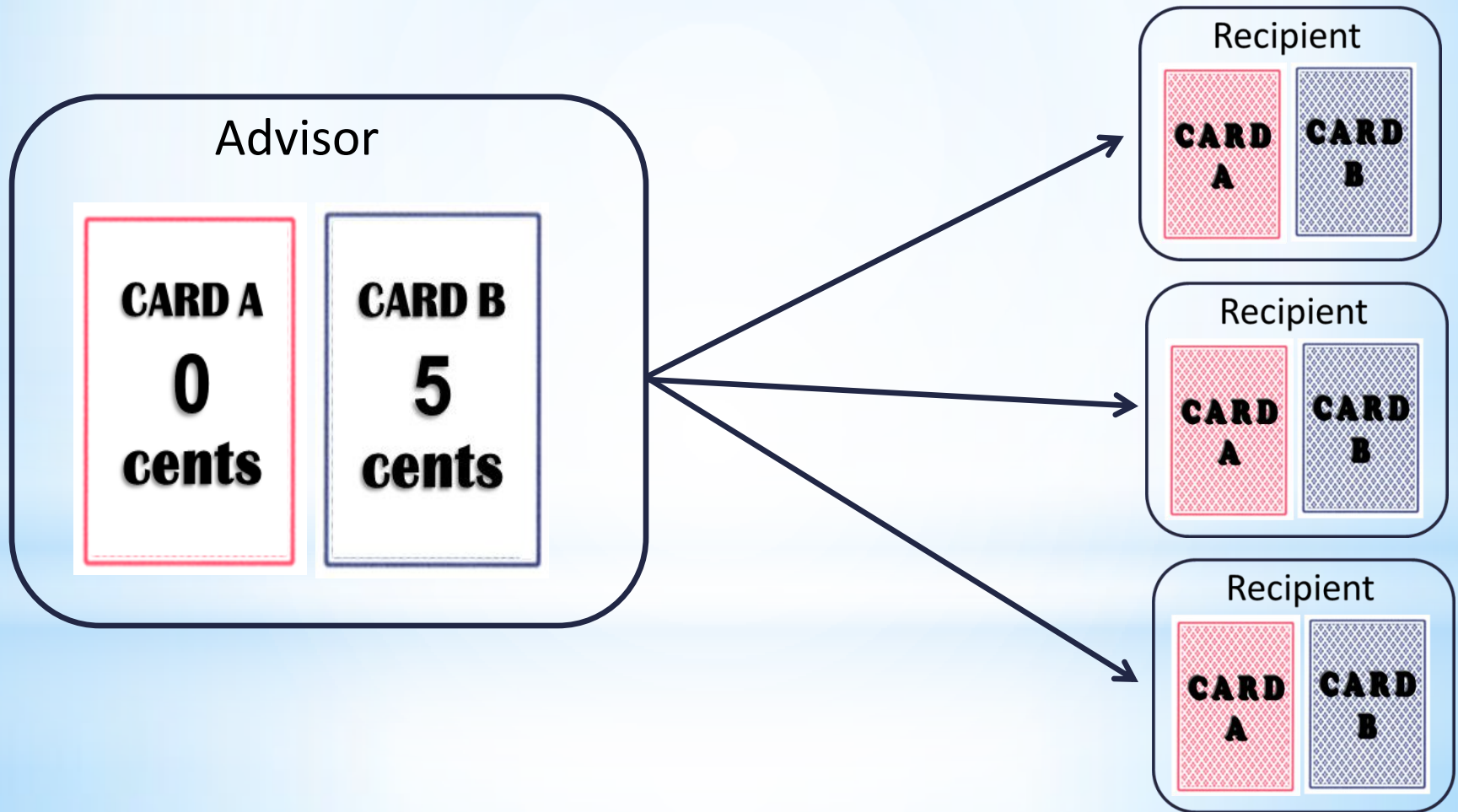## Part 3 - results
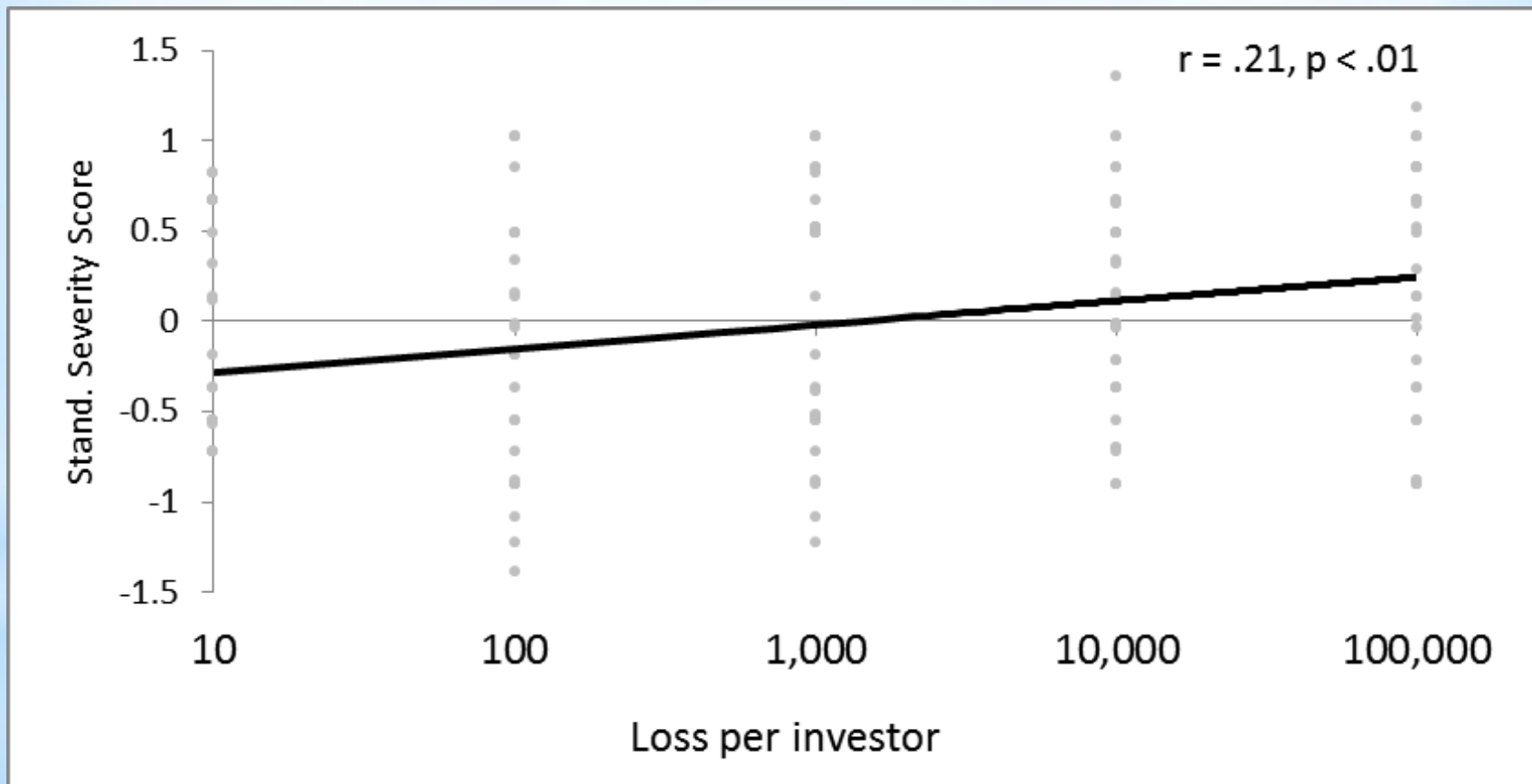
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Recommending an option to others:
Study 2- Computerized card game (Mturk)

Recommending an option to others:
Study 2- Computerized card game (Mturk)

Condition 1

CARD A	CARD B
0 cents	5 cents

Condition 2

CARD A	CARD B
0 cents	20 cents

Advisor's incentives
- Additional payment for recommending <u>Card A</u>: 3 cents
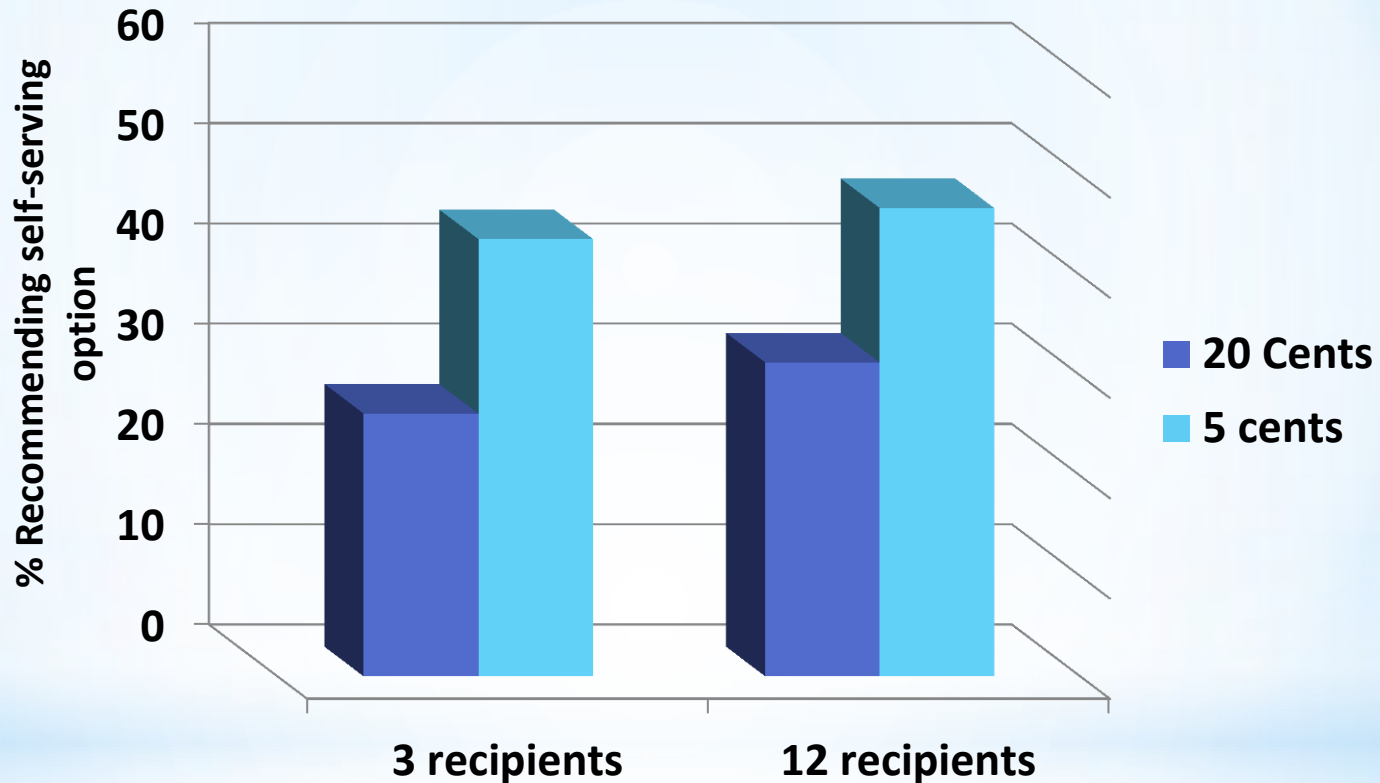- Additional payment for recommending <u>Card B</u>: 1 cent

Recommending an option to others: Study 2

N=228 Mturkers

	3 recipients	12 recipients
5 cents		
20 cents		

Dependent variable: % recommending card A (self-serving)

Recommending an option to others: Results

Main effect of the gain per recipient: $\chi^2\,(1) = 6.99$, $p < .01$

No main effect of the number of recipients: $\chi^2\,(1) < 1$, $p = .38$

Outline

The hypothesis was tested in three social settings:

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Making a decision for self and others: Study 3

Basic payment: 6 shekels

Option A:

You will receive 25 additional shekels. In this case, the final payment of <u>3 participants</u> (randomly selected) will be reduced by <u>4 shekels</u>.

Option B:

You will receive 2 additional shekels. In this case, the final payment of all participants will remain the same.

Making a decision for self and others: Study 3

Option A:

You will receive 25 additional shekels. In this case, the final payment of <u>3 / 12 participants</u> (randomly selected) will be reduced by <u>4 / 1 shekels</u>.

Option B:

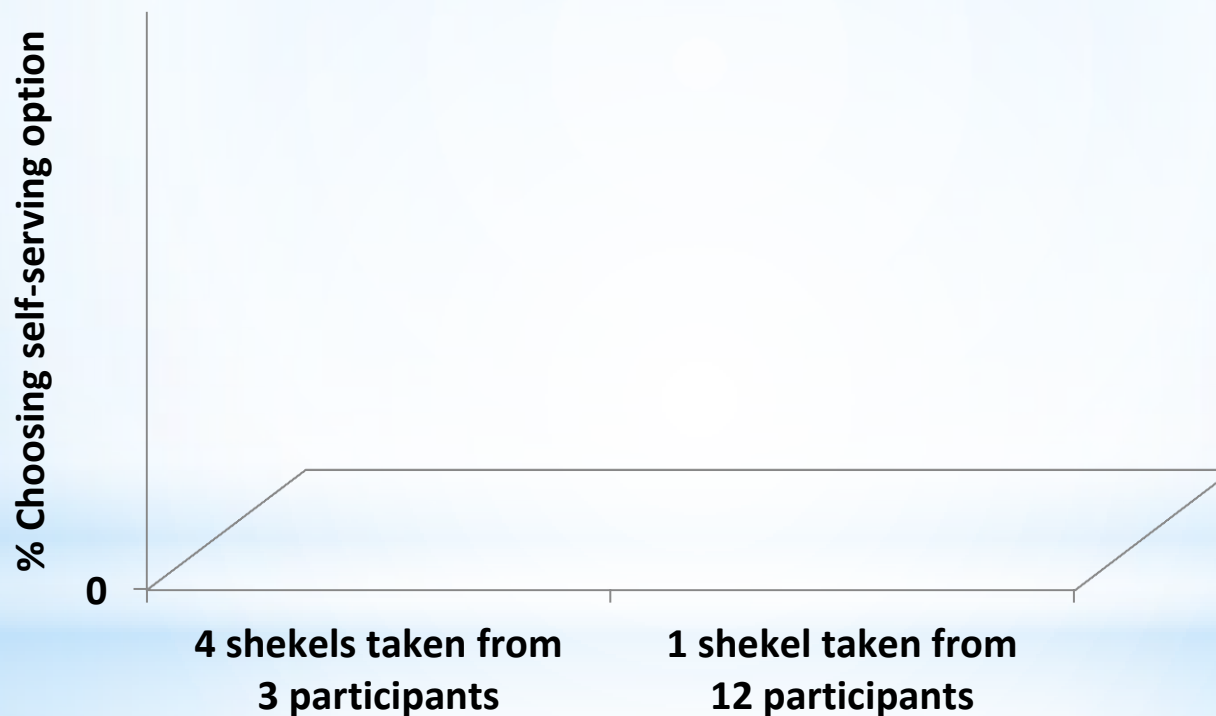You will receive 2 additional shekels. In this case, the final payment of all participants will remain the same.

Cumulative loss: 12 shekels

Making a decision for self and others: Method & Design

❖ One randomly selected decision will be executed

❖ Anonymity is ensured

❖ Two within-subject conditions

❖ Dependent variable: % choosing option A (self-serving)

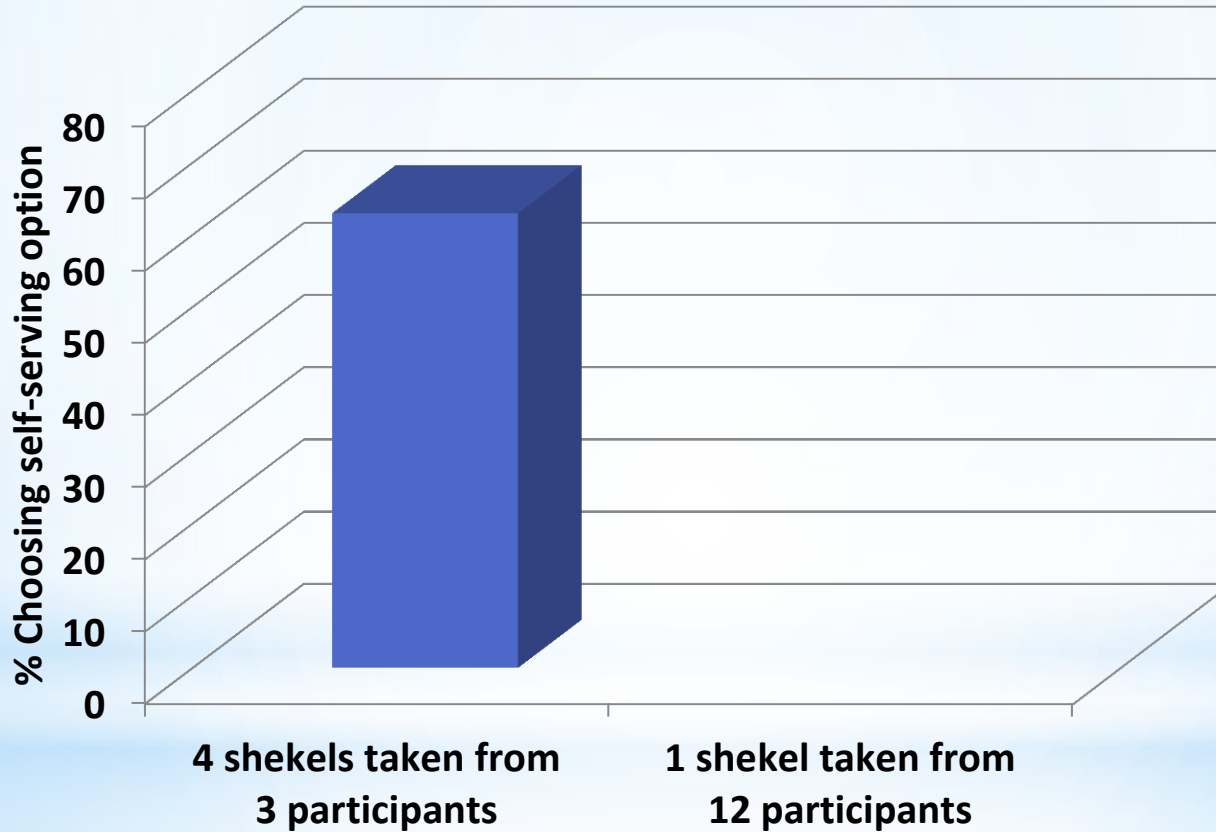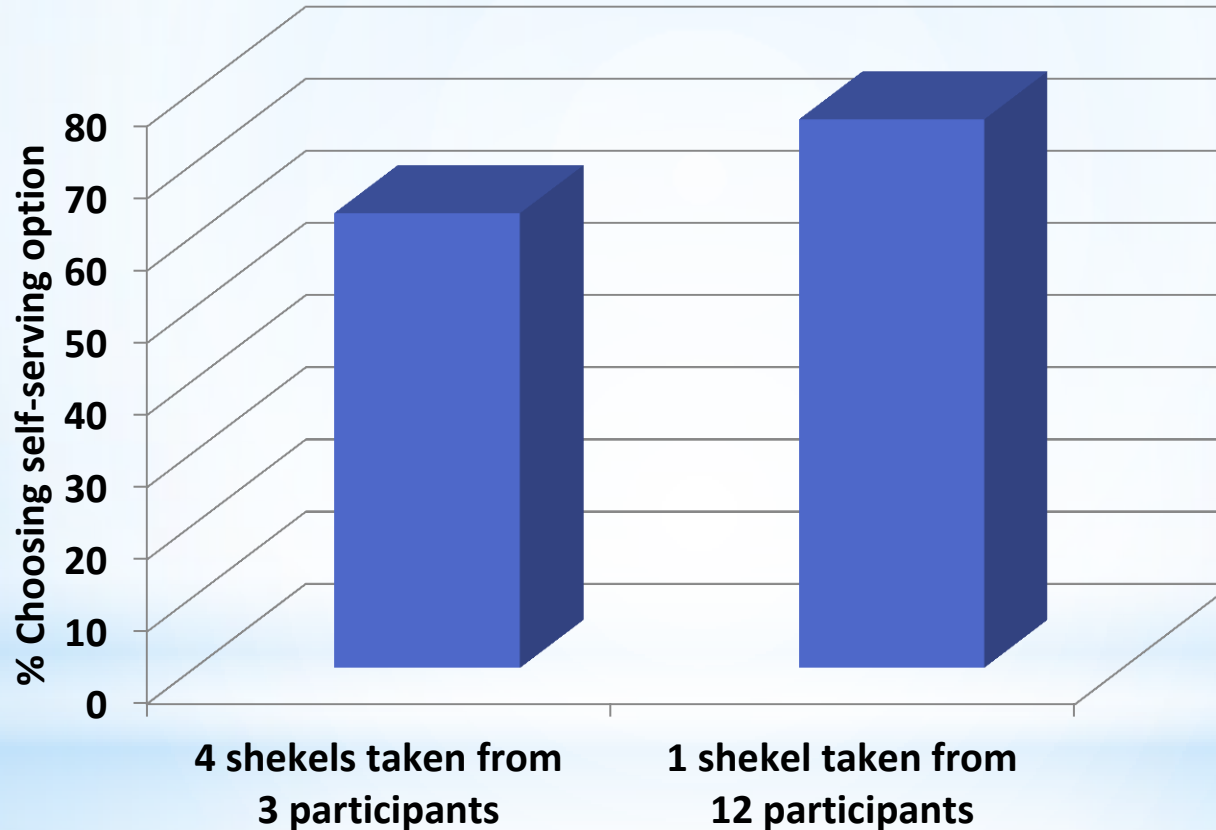# Making a decision for self and others: Results

N = 140

% Choosing self-serving option

0

4 shekels taken from
3 participants

1 shekel taken from
12 participants

Making a decision for self and others: Results

Making a decision for self and others: Results

N = 140

63 vs 76%, p <.01, McNemar's test

Summary

❖ A cumulative loss is perceived less severe when many people are each affected by a small amount of money.

Decision-makers are
❖ sensitive to the size of the loss borne by the prototypical individual
❖ insensitive to the number of individuals affected.

❖ A decision that creates a huge cumulative loss could still be perceived as acceptable.

Conclusions

The findings have implications for public decisions that influence the welfare of many people.

Thank You!

E-mail: meir.barneron@gmail.com