The Effect of Depleted Resources and Weak Preferences on Consumer Choice

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A substantial body of psychological literature points to one underlying resource used to regulate behavior and exert self-control. In this paper we claim that when preferences are weak, then depleting the resource used to actively control and consciously guide behavior has a profound influence on choices. In four experiments, we demonstrate the interaction between depletion and subsequent choices, using context effects (e.g., compromise or attraction) and the no-choice option paradigm. The results shed light on the mechanism underlying the effects of context on choices when resources are depleted and beliefs (preferences) are weak.

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EXTENDED ABSTRACT

Recent news concerning fraud by Enron, Worldcom, and Tyco had a devastating effect on the stock prices of the firms directly involved in these frauds. Interestingly, such news also seemed to have had much broader effects on the stocks of other companies that were not directly involved in the scandals. For instance, news that Tyco’s CEO resigned amidst charges of fraud was associated with a broad sell-off in domestic markets (McKay 2002), and Worldcom’s troubles precipitated a 4% drop in stock prices in Japanese, German, and French markets (Economist 2002). The current research examined the possibility that investment fraud has a negative impact on financial markets partly because it induces generalized suspicion among investors. We also investigated the information processing induced by such suspicions. Specifically, the evidence presented here shows that corporate fraud led to a generalized form of suspicion that caused investors to become wary of investment in the stock of unrelated, second-party firms. Furthermore, these judgments of suspicion are shown to be heuristic in the sense that they occurred automatically, without careful deliberation.

Due to the lack of research examining suspicion in an investment context, we relied on related theory and research in other areas of judgment for the purposes of making our predictions. The dual process model (Chaiken and Trope 1999) proposes that judgment occurs through two qualitatively different types of information processing: 1) heuristic processing, a relatively automatic form of judgment relying on simple heuristic cues, and 2) systematic processing, which involves careful thought and integration of information when making judgments, and requires greater cognitive capacity and motivation. Information processing can be motivated by a number of different goals, including accuracy and defense concerns (Chen and Chaiken 1999). Accuracy goals motivate individuals to make valid, correct, or objective judgments, whereas defense goals lead to judgments aimed at maintaining self-esteem or protecting one’s material interests.

Prior research in the trust literature (Rotter 1971) makes a distinction between specific trust/distrust based on past experiences with the same information source (e.g., distrust of Enron following revelation of the fraud this firm committed), and generalized trust/distrust based on experiences with other, similar sources of information (e.g., distrust of other firms on the basis of Enron’s misdeeds). Previous research (Petty et al. 1983) shows that specific trust can act as a simple agreement heuristic (e.g., “I should agree with the financial statements of firms that I already trust”), whereas specific distrust tends to increase the amount of systematic information processing that occurs, thereby improving the accuracy of judgment (Priester and Petty 1995). In contrast, generalized trust/suspicion tends to be schema-based or stereotyped, where judgments occur automatically in response to associations between the information source and trusted/distrusted groups or organizations (Kramer 1999). Consistent with this mechanism, prior research examining consumer reactions to false advertising shows that deception by one firm can automatically evoke the negative stereotype that no firms can be trusted, resulting in more negative attitudes towards unrelated second-party firms (Darke and Ritchie 2003).

Two experiments were conducted to examine the prediction that the fraudulent statements made by one firm would lead to more negative investment decisions towards a second, unrelated firm through generalized suspicion. The basic strategy in both studies was to expose participants to false financial statements made by one firm (deception manipulation), and then examine the implications this had for information processing, suspicion and investment decisions towards a second, unrelated firm. The findings of both studies generally supported our predictions by showing that corporate deception lowered investor confidence as well as the amount of money invested in the second firm. Process measures indicated that these effects occurred because the initial fraud led to greater distrust of the second firm. Moreover, these effects occurred automatically in the sense that they were not mediated by systematic processing. Additional evidence argued again the alternative possibility that prior deception might have led to more negative responses by inducing negative affect.

In addition, both of the experiments manipulated the level of specific trust relating to the prior reputation of the second-party firm. This manipulation was included to examine whether specific trust would be effective in reducing the negative effects of generalized suspicion. Accuracy-based views of trust/suspicion suggest it is reasonable to generalize suspicion from one source to another provided that more diagnostic information about the trustworthiness of the second source is unavailable (Rotter 1971). However, other evidence suggests that individuals are not always perfectly rational when it comes to the distrust they display towards others (Kramer 1998). Suspicions are often exaggerated, and can be maintained despite specific information suggesting a particular source is trustworthy. Consistent with the bias view of suspicion, the results of both experiments showed that specific trust did little to buffer the second-party firm from the effects of generalized suspicion. These findings fit best with the dual process view that suspicion can evoke a defensive bias in judgment, where investors who have been fooled once become more wary of additional financial claims in order to avoid being fooled again.

Overall, our research supports the idea that corporate fraud can undermine investor trust in a general sense. Furthermore, this generalized suspicion was capable of undermining both reputable and lesser known second-party firms. These findings underscore the need for all publically traded firms to be concerned about investment fraud, and more specifically the need to support current efforts to better regulate the accounting and finance industries to help reduce the possibility of similar events in the future. As suggested by Robert Shiller (2003), trust may be “[t]he market’s most valuable stock.”

REFERENCES


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