The Role of Attribute Importance in the Effect of Defaults on Choice: the Moderating Effect of Budget Range and Justification

Sehoon Park, Sogang University, South Korea  
Moon-Yong Kim, Korea Advanced Institute of Science and Technology, Republic of Korea

Loss aversion or an endowment-based explanation clearly predicts that high (i.e., more expensive) defaults will have a stronger effect on choice than will low (i.e., less expensive) defaults. This research examines whether the effect of the ordinal position of defaults (low vs. high) on choice differs depending on the importance of attributes that constitute the defaults. Furthermore, we propose that consumers’ budget range and justification for choice differentially affect the dual mechanisms that vary the degree of loss aversion (i.e., changes in cognitive focus and emotional attachment) as suggested by Ariely et al. (2005), and thus they serve to moderate the effect of defaults on choice.

[to cite]:

[url]:
http://www.acrwebsite.org/volumes/14360/volumes/v36/NA-36

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EXTENDED ABSTRACT

There are several product/service categories in which consumers have some control over the number, type, and configuration of options they select (Park, Jun, and MacInnis 2000). For instance, consumers are allowed to create their own consumable products by either starting with a basic product and adding desired components or starting with a fully loaded product and deleting undesired components (Levin, Schreiber, Lauriola, and Gaeth 2002; Park et al. 2000). That is, there are many everyday examples of additive (or upgrading) or subtractive (or downgrading) default designations for relatively less expensive nondurable products (e.g., pizzas) or more expensive products (e.g., PCs, automobiles): the default is the choice alternative a consumer automatically receives if he/she does not explicitly request otherwise (Brown and Krishna 2004, p. 530).

Much prior research concerning default effects has demonstrated that defaults can change the likelihood that a particular item is chosen (Brown and Krishna 2004; Johnson, Bellman, and Lohse 2002; Levin et al. 2002; Park et al. 2000). Especially loss aversion or an endowment-based account (cf. Kahneman, Knetch, and Thaler 1991) offers a clear explanation for why the strength of the default may vary according to which alternative receives the default designation, and thus it predicts that high (i.e., more expensive) defaults will have a stronger effect on choice than will low (i.e., less expensive) defaults (see Brown and Krishna 2004).

Tversky and Kahneman’s reference-dependent model (1991) suggests that loss aversion may vary systematically across attributes. Among some of the determinants of the differences in loss aversion, it was demonstrated that attribute importance is a strong predictor of loss aversion (Johnson, Gächter, and Herrmann 2006). Given that default effects are typically described as a manifestation of loss aversion, thus, we proposed that the effect of the ordinal position of defaults (low vs. high) on choice differs depending on the importance of attributes that constitute the defaults.

In addition, recent research has identified critical moderators that help define the boundaries of loss aversion (Ariely, Huber, and Wertenbroch 2005; Camerer 2005; Novemsky and Kahneman 2005a, 2005b). Although there may be several pathways through mechanisms that underlie loss aversion, we proposed that consumers’ budget range and justification for choice differentially affect the dual mechanisms that vary the degree of loss aversion (i.e., changes in cognitive perspective and emotional attachment) as suggested by Ariely et al. (2005), and thus they serve to moderate the effect of defaults on choice. Finally, we suggested the role of attribute importance in the low- or high-default condition that varies the differential effect of two extrinsic, contextual factors (i.e., budget range and justification) on the dual mechanisms that underlie loss aversion, which would, in turn, influence the effect of defaults on choice.

We tested our hypotheses in a series of three studies. We selected automobiles as the product category for these studies. A set of 10 product attributes was selected, five of which were rated as important or less important. Eighty-eight undergraduate students at a large university participated in study 1. Under both no financial constraint (i.e., wide budget range) and no justification (i.e., participants not instructed to provide reasons for their choice) conditions, one factor (i.e., the ordinal position of defaults: low vs. high) was manipulated across two experimental cells. To manipulate the ordinal position of defaults, we followed the same manipulation established by Park et al. (2000). In the context of product attributes choice decisions, the participants were asked to either add desired product attributes to a base model (i.e., low-default condition) or delete undesired product attributes from a fully loaded model (i.e., high-default condition). The participants for study 2 consisted of 89 undergraduate students at a large university. Under both financial constraint (i.e., narrow budget range) and no justification condition, the ordinal position of defaults (low vs. high) was manipulated across two experimental cells as in study 1. The control group was the 88 respondents in two experimental cells from study 1. In study 3, a 2 x 2 between subjects design was used in the justification condition: the ordinal position of defaults (low vs. high) and budget range (narrow vs. wide). A total of 173 undergraduate students at a large university were randomly assigned to one of the four experimental conditions. The control group was the 177 respondents in four experimental cells from studies 1 and 2.

In study 1, it was demonstrated that under no financial (budgetary) constraint, there exists a positive effect of default designation (low vs. high) on choice. And, the positive effect of default designation on choice was shown to increase in proportion to the importance of attributes that constitute the defaults. That is, the difference in consumer choice outcomes between low- and high-default conditions was observed to be larger when important (vs. less important) attributes are added to (deleted from) a low (high) default.

Study 2 demonstrated the moderating role of budget range in the effect of defaults on choice: As the range of budget narrows, it was shown that choice outcomes decrease more greatly among consumers in the high-default condition than among consumers in the low-default condition. Also, it was found that the moderating role of budget range in the effect of defaults on choice arises when important attributes are added to (deleted from) a low (high) default, whereas it does not have a significant moderating role in the effect of defaults on choice when less important attributes are added to (deleted from) a low (high) default.

In study 3, we examined the moderating role of justification in the effect of defaults on choice. It was shown that justification increases the difference in consumer choice outcomes between low- and high-default conditions under no financial constraints (i.e., under the wide budget range), unlike under the narrow budget range. Also, it was revealed that when less important (vs. important) attributes are added to (deleted from) a low (high) default, justification plays a moderating role in the effect of defaults on choice under the wide budget range, unlike under the narrow budget range.

REFERENCES


