When Perceiving Low Control Fosters Great Expectations: the Case of Financial Decision Making

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This research investigates the impact of incidental personal control threats on outcome expectancies. Results show that control threats paradoxically increase the perceived likelihood for positive outcomes because they heighten individuals’ desire to perceive themselves as competent. Accordingly, the effect strengthens as positive outcomes become more diagnostic of competence.

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EXTENDED ABSTRACT
Mark Twain purportedly once quipped, “Everyone talks about the weather, but no one does anything about it.” Underlying this pithy observation is the idea that we often lack control over the events in our lives. Indeed, everyday life is replete with experiences that threaten personal control by undermining the belief that one can personally predict, affect, and steer events in the present and future (Kay et al. 2009). This raises the question as to whether and how personal control threats influence consumers’ downstream judgments and decisions.

One prediction is that incidental personal control threats will worsen outcome expectancies. This stems from past research showing that people often overestimate their likelihood for positive outcomes because they assume future conditions and behaviors will be ideal (Tanner and Carlson 2009). This suggests that perceiving low control in one context may serve as a generalized reminder that the world is not ideal, which in turn would make salient the fact that factors outside one’s control could preclude positive outcomes in other contexts as well. Thus, incidental threats personal control threats may lower the perceived likelihood for positive outcomes more generally.

In contrast, I argue that incidental threats to personal control are likely to increase the perceived likelihood for positive outcomes. I develop this hypothesis by adopting a motivational framework whereby personal control is construed not only as a situational appraisal but also as a fundamental motivation (Fiske 2014; Heider 1958; Kelly 1955). Building on the notion that control motivation reflects a more fundamental need for competence—that is, the need to use control effectively in shaping one’s environment (Burger 1987)—I posit that threats to personal control heighten people’s desire for competence, motivating them to believe they will be effective in producing desired outcomes in unrelated domains. I report three experiments that test this proposition in the context of financial decision making.

Experiment 1 examines whether an incidental personal control threat improves outcome expectancies and, if so, whether this is mediated by greater perceived competence. I manipulated personal control using a writing task where respondents elaborated on either a movie they had recently seen (baseline-control condition) or a fabricated quotation from a philosopher, which was pretested to threaten personal control (low-control condition). Next, respondents completed an ostensibly unrelated task where they constructed a stock portfolio. They reported how likely it was that their portfolios would outperform the average and their perceived competence in constructing the portfolio (Note: because the outcome expectancy DV is a relative measure whereas the perceived competence DV is absolute, one does not necessarily imply the other—thus, a respondent could perceive himself as incompetent in the task but still expect to perform as well or better than the average simply because he perceives others as equally incompetent). Results showed that respondents believed their portfolios were more likely to outperform when they were in the low (vs. baseline) control condition (p=.04, d=.23), and greater perceived competence mediated this effect (95% CI=.01–.21).

Experiment 2 provides additional evidence for my proposition that this effect is driven by a heightened desire for competence by showing that it is stronger for positive outcomes perceived as more diagnostic of competence. I first measured perceived diagnosticity by asking respondents the extent to which they perceived their outcomes in the stock market as reflecting their own competence. I then manipulated personal control by asking respondents to elaborate on something in their lives over which they had no control (low) or complete control (high). Finally, I presented respondents with a price chart for a stock they were considering and measured their perceived likelihood of profit. As predicted, the impact of personal control on outcome expectancies varied as a function of perceived diagnosticity (β=.41, p=.001). I explored this interaction using the Johnson-Neyman technique (Johnson and Neyman 1936; Spiller et al. 2013) to identify regions of significance for the simple effect of personal control at varying levels of perceived diagnosticity. Analysis revealed a positive effect of low (vs. high) personal control on outcome expectancies when perceived diagnosticity was relatively high (i.e., .70.42 or higher on a 100-point scale) but a negative effect when perceived diagnosticity was relatively low (i.e., .33.38 or lower).

Experiment 3 provides causal evidence for the moderating role of perceived diagnosticity by manipulating rather than measuring it as in E2. I manipulated perceived diagnosticity by varying whether or not personal control was threatened in the same domain as the subsequent judgment. The rationale for this manipulation is that one cannot use control effectively (i.e., be competent) in a domain where one does not have control at all. As such, threatening control in the same domain should make respondents less likely to perceive positive outcomes as reflecting their own competence. To manipulate personal control, I varied perceived predictability, an important antecedent of personal control (Skinner 1996). Respondents first completed an ease-of-retrieval task (Schwarz et al. 1991) where they generated either 12 or 2 ways to predict an event, the rationale being that generating 12 (vs. 2) ways to predict an event is more difficult, thereby lowering perceived predictability. To manipulate threat-domain, I varied whether respondents were asked how to predict the weather (unrelated-domain) or stock price (related-domain). Finally, respondents completed the same financial judgment task as in E2. Analysis revealed the predicted interaction (F(1, 144)=4.26, p=.04), such that respondents in the low (vs. high) predictability condition believed their investment was more likely to be profitable when the threat was unrelated to investment outcomes (p=.003, d=.66), but not when it was related (p=.90, d=.03). This is consistent with the notion that threatened respondents were motivated to exaggerate their likelihood for a positive outcome, but only to the extent that they believed it would reflect positively on their competence.

These experiments suggest that the perception of low control can paradoxically make people more optimistic about their outcomes by motivating them to believe they will be effective in unrelated domains. Accordingly, this effect is more likely to occur for positive outcomes perceived as highly diagnostic of competence.

REFERENCES


