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

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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.”
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
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?
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 prototypical member of the group (Kahneman et al. 1999).

The prototype does not contain information about the size of the group.

Scope-insensitivity (Hsee & Rottenstreich, 2004; Nordgren & McDonnell, 2010; Slovic, 2007)
Desvousges et al. (1992): People were willing to make about the same donation for saving either 2,000 or 200,000 birds.
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.

**Hypothesis**

- Decision-makers
  - Consider the size of the loss borne by each person
  - Neglect the number of persons affected
  - Neglect the cumulative loss engendered
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)
“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...”
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

<table>
<thead>
<tr>
<th>Conditions</th>
<th>Loss per investor (shekels)</th>
<th>No. of investors affected</th>
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<tbody>
<tr>
<td>1</td>
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Judging others’ social decisions:
Part 1 - results

$r = .34, p < .01$
Judging others’ social decisions: Part 2 - design

Same financial scenario (N=141)

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Judging others’ social decisions: Part 2 - results

$r = .03, p = .77$
### Judging others' social decisions: Part 3 - design

Same financial scenario (N=150)

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Cumulative loss: 1,000,000 shekels
Judging others' social decisions: Part 3 - results

\[ r = .21, \ p < .01 \]
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)
Recommending an option to others:
Study 2- Computerized card game (Mturk)
Advisor’s incentives

- Additional payment for recommending Card A: 3 cents
- Additional payment for recommending Card B: 1 cent
## Recommending an option to others: Study 2

N=228 Mturkers

<table>
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<th>3 recipients</th>
<th>12 recipients</th>
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<tbody>
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<td></td>
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<tr>
<td>20 cents</td>
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Dependent variable: % recommending card A (self-serving)
Main effect of the gain per recipient: $\chi^2 (1) = 6.99, \ p < .01$

No main effect of the number of recipients: $\chi^2 (1) < 1, \ p = .38$
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)
Basic payment: 6 shekels

Option A:
You will receive 25 additional shekels. In this case, the final payment of 3 participants (randomly selected) will be reduced by 4 shekels.

Option B:
You will receive 2 additional shekels. In this case, the final payment of all participants will remain the same.
Option A:
You will receive 25 additional shekels. In this case, the final payment of 3/12 participants (randomly selected) will be reduced by 4/1 shekels.

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

4 shekels taken from 3 participants
1 shekel taken from 12 participants
Making a decision for self and others: Results

N = 140

4 shekels taken from 3 participants
1 shekel taken from 12 participants

% Choosing self-serving option
Making a decision for self and others: Results

N = 140

63 vs 76%, p < .01, McNemar’s test
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.
The findings have implications for public decisions that influence the welfare of many people.
Thank You!

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