Research Roundup: 'One-size-fits-all' Regulation, Avoiding Decision Traps and How Sex Cues Affect Sales

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Would companies benefit from a "one-size-fits-all" regulatory regime? If decisiveness is a virtue, can we learn to make decisions better? What effect do sexually suggestive images have on buyers' impatience? These questions are examined in recent research papers by Wharton professors Mirko Heinle, Jonah Berger and Gal Zauberman, respectively.

A Matter of Regulation

Thanks to former major players such as Enron and Tyco, regulation has become a way of life for companies in the securities market. But since the introduction of the Sarbanes-Oxley Act, which increased reporting requirements and resulted in significant compliance cost increases, and the Dodd-Frank Act, which heightened the scrutiny of trading activities, some firms have claimed that this type of "one-size-fits-all" regulation is unfair. Regulations tailored to specific companies or sectors would be more efficient, they argue, by reducing compliance costs and allowing firms to be more agile in managing their finances. A recent paper, " The Merits of One-Size-Fits-All Securities Regulation," puts this debate to the test and finds that a uniform approach to regulation ultimately may be better for companies.

Co-written by Mirko Heinle, a Wharton accounting professor, and Henry Friedman, an accounting professor at UCLA's Anderson School of Management, the paper compares two hypothetical firms under two different variables: 1) Both are subject to the same securities regulation and 2) Each is subject to its own, tailored securities regulation. The authors note that these firms "can also be interpreted as a multi-industry or multi-sector economy where each firm represents an industry or sector."

According to the researchers, at the heart of their analysis is lobbying -- the means by which firms can alter regulations to suit their purposes. "Lobbying can be good for a firm, since a politician may give [a company] a subsidy or impose import tariffs on other countries that will help [that firm]. But it's a disadvantage for the economy as a whole," Heinle says. In their paper, Heinle and Friedman write that lobbying "is a socially wasteful activity that increases managers' opportunities for diverting cash flows." Through lobbying efforts, companies can open regulatory loopholes that ultimately enable the movement of cash away from shareholders and into company coffers. That not only affects stockholders, but also the

regulators themselves, who could face a backlash for allowing such loopholes. In addition, the authors note, lobbying itself is an extremely costly endeavor that puts a strain on companies' books.

So what would happen if regulators adopted a strictly homogenous approach toward companies? According to the researchers' model, under a one-size-fits-all regulatory regime, lobbying would be considerably reduced, thereby benefitting stakeholders, regulators and the firms themselves. Why the reduction? Under a uniform approach, firms would recognize what the authors define as "the externality" of any lobbying that takes place -- that is, in the case of the two hypothetical companies, "each firm's lobbying directly affects the regulation that both firms face." The often-cited problem of "free riding" -- when one firm benefits from another firm's efforts without paying anything -- becomes a positive in this scenario, since companies would be aware that their own lobbying efforts may, in fact, ultimately give a boost to the competition.

The researchers also found an additional benefit: When companies face capital restraints, uniform regulation enables those with projects that need higher capital requirements to move forward with their projects. "Better regulation facilitates less costly contracting, which allows more positive net present value projects to be funded, consistent with recent studies of financial market development and securities regulation," the authors write. As such, Heinle and Friedman predict that more welfare-improving projects would be funded with a one-size-fits-all approach than with individual regulation. However, they note that when there are capital restraints and firms are not assumed homogeneous, individual regulation can actually allow one firm to get the funding it needs, whereas one-size-fits-all may result in neither being able to move forward.

Despite the results favoring one philosophy of regulation over another and seeming to lend proof that both the Sarbanes-Oxley and Dodd-Frank acts are beneficial, Heinle stresses what their work does not prove -- that lobbying can only have a negative result. "We think lobbying can be a positive when you tell politicians what's important [for your business or industry]" -- for example, specific trade protections, he says. "The problem is that lobbyists don't always have these good intentions ... and that's why we need this kind of regulation."

Getting 'Unstuck' from the Mire of Trivial Decisions

If decisiveness is a virtue, can we learn to make decisions better?

Maybe, according to a recent paper by Wharton marketing professor Jonah Berger and Aner Sela, a marketing professor at the University of Florida. The challenge, the two researchers say, is to avoid "decision quicksand," a state of mind that tricks people into believing trivial decisions -- like which brand of dental floss to buy at a drug store or what shade of white to paint the kitchen -- are important and therefore worth extended time and deliberation. The more important a decision is perceived, the more likely a person is to sink into a morass of details, trade-offs, attributes and cost comparisons, hoping to find the "right" answer.

"While we might expect to spend lots of time on important decisions -- like which college to go to or what city to live in, we have found that people actually spend more time than they should on unimportant decisions because they get sucked in," notes Berger. He and Sela discuss that conclusion -- drawn from a series of experiments -- in a paper titled, "Decision Quicksand: How Trivial Choices Suck Us In."

Unlike "analysis paralysis," a term used to describe a standstill during the decision-making process, decision quicksand refers to a spiraling tunnel of exertion and inference-making that overcomplicates what should be a simple process. "We often view decisions like math problems -- like there's got to be a right or wrong answer," says Berger. "That is not true with most things. The differences are manufactured. They don't matter as much as we think they do. It is better to choose a [brand of] toothpaste and move on." Worst of all, adds Berger, is that people agonize over decisions that ultimately make them unhappy because they wasted so much time coming to a conclusion.

The basic premise of the paper is that the subjective difficulty experienced while making a decision will dictate how much more time and effort people feel is necessary to arrive at an answer. In other words, if a trivial decision is clouded by a sea of options, unexpected complications, trade-off conflicts or excess time invested, it is likely to be perceived as difficult and therefore important, even though the choice has not

actually become more vital to the person's overall well-being.

To illustrate perceived importance as a "green light" to invest time, the researchers asked 264 online respondents to choose between two airline flights. Everyone was instructed to pick the best flight possible, but one group was told that the choice was important (that it was a critical meeting, and the journey was expected to be long and difficult) while the other group was told that the choice was unimportant (that the journey would be short, and the meeting was not critical to any outcome).

Some respondents were given a description of the options in a large, easy-to-read font, while others had to decipher a small, hard-to-read font. It took people making the "important" decision about the same amount of time to make a choice, no matter how clearly printed the directions were. But those faced with the "unimportant decision" and the unexpected complication of unclearly printed directions took longer to make a choice than any of the other groups.

In another experiment, two groups -- totaling 261 student subjects -- were instructed to select a college course for the following semester. One group of students was told that the choice was very important because it related to their major. The other group was told the opposite. The researchers also manipulated how much time participants believed had elapsed by speeding up the clock. It took those who had the less crucial task but who perceived that they had spent a significant amount of time in the decision-making process the longest to arrive at a final choice.

According to Berger, the results of the experiments have value both to the marketing industry and to ordinary people concerned with improving their time management. "Marketers don't want to frustrate consumers or make them dissatisfied with a product or a store," he notes. "Some are offering fewer options, collecting [data about consumers'] preferences and tailoring their products to those preferences."

For example, Amazon asks new buyers to complete a profile of likes and dislikes. The company also keeps track of subsequent purchases. Using what is known as a "choice architecture," Amazon targets its sales promotions to those preferences rather than bombarding the consumer with every special offer in the cyber store, Berger says.

The research also has implications for those who want to develop the superior time management skills and decisiveness that are generally viewed as essential for someone on a leadership track. "Culturally, we have this notion that decisiveness is power, particularly for politicians, even if a more deliberative approach is better," Berger points out. Within the complex process of decision making, he notes, there are two kinds of people: "Maximizers" are always on the lookout for the best option, while "satisficers" are inclined to settle for "good enough." "In some ways, it's good to be a maximizer," he says. "But with regard to the endless trivial decisions that fill our days and weeks, it's probably healthier to be satisfied with good enough."

Time, Sex and Taming Impulsivity

The clichéd pairing of a flashy sports car with an attractive woman in a bikini may be more than just an obvious attempt by advertisers to catch the eye of (usually male) car shoppers. It may be a way to tap into the brain's perception centers and urge a consumer that buying this car *right now* is the best way to go, even if waiting a year would be a better financial move.

At least that's the theory behind a new working paper written by Wharton marketing professor Gal Zauberman and B. Kyu Kim, a 2010 Wharton PhD who is now a marketing professor at the University of Southern California's Marshall School of Business. The paper -- "Can Victoria's Secret Change the Future? A Subjective Time Perception Account of Sexual-cue Effects on Impatience" -- explores the question of how sexual arousal can actually change the brain's perception of time to nudge someone toward more immediate action, even if it's objectively the less desirable choice.

"This falls under the general rubric of intertemporal choice, or why and when people choose smaller, sooner outcomes," such as opting to receive $100 today versus double that amount if they agree to wait a year, Zauberman says. "Previous research has emphasized the power of sexual cues to induce a strong general psychological desire to obtain all available rewards," the authors note in their paper. "In the case of money, that motivated appetite would enhance the perceived value of*immediate* monetary rewards."

But what Zauberman and Kim's research suggests is that the interaction between arousal and impulse control may be much more complicated. "Part of the reason why people discount future events, more or less, is their perception of duration [of time]," Zauberman notes. Sexual cues, the authors argue, have "the ability to lengthen the perceived temporal distance to *delayed* rewards. That is, sexual cues make the wait seem subjectively longer, resulting in greater impatience" for a reward.

In a series of experiments, the researchers tested the effect of sexual cues on future time perception by showing sexually suggestive and non-suggestive photographs to self-identified heterosexual male students. Some were images of female models in lingerie, selected from the Victoria's Secret online catalogue; others were "neutral" control shots of nature. Then, the participants were asked to make judgments regarding their perception of time, and also the value of a given reward -- such as a $65 gift card from Amazon.com -- when they received it immediately versus three months or 12 months later. Specifically, they were asked what dollar amount they would require if they had to wait for those durations.

Previous research on the topic had suggested that, in general terms, an aroused person sees an immediate option as a generally better reward. What Zauberman and Kim found is that not only did the immediate option seem more attractive in an aroused state, but also the delayed option seemed significantly smaller from the individual's point of view due to the altered sense of time. "Although the waiting time is fixed -- say, one year -- in a subjective sense, it's fluctuating," Kim says. "You may feel one year is nothing, but an impatient person may feel one year is really ridiculously long."

The new research also hits on an unexpected, and surprising, possibility. In one experiment, subjects were shown photos designed to elicit physical symptoms similar to arousal -- increased heartbeat and respiration, for example -- that weren't actually sexual in nature. In that experiment, the subjects' perception of time was similar to those individuals who had seen photos of attractive women, suggesting that sex may not be the only driver of this temporal response.

"There could be many other situational factors that can alter the perception of time," Kim says. In fact, the next phase of Zauberman and Kim's research focuses on musical cues and time perception, testing the hypothesis that faster-tempo music could produce similar results to their current research findings.

From a marketing and advertising standpoint, Zauberman and Kim's research supports or suggests new ways of influencing customers to make impulse purchases, or subtly wearing down their impulse control mechanism to make them spend a little bit more than they intended. But the professors have a different direction in mind for their work. Conditioning people to change how they perceive time could help reduce impulsive behaviors, be it shopping or eating, they note. If people can look at a set duration of time in a different way, then it can help them realize that the distance isn't quite that far. Six months may seem like an eternity when you're sexually charged and looking at a hundred-dollar bill, but if you can think of that time period in another light -- the length of a baseball season, for example -- it may not seem so urgent that you get the money now and forsake a $200 payday in half a year.

"If part of the reason people choose short-term rewards has to do with how they perceive time, then maybe we need to intervene in how they approach short-term duration," Zauberman notes. "If we ask them to elaborate on that distance, or break that distance into shorter durations, it might make more sense" to wait.