THE PERILS OF EQUATING SYSTEM 1 WITH EMOTION AND IRRATIONALITY

Pascal Bourgeat, Director of Behavioural Science, Ipsos Australia pascal.bourgeat@ipsos.com

WHAT DOES RATIONALITY LOOK LIKE?

Almost 15 years ago, behavioural science really got attention with books like *The Tipping Point* and then *Blink*. Behavioural scientists with a talent for communicating research intelligibly, attractively and more faithfully quickly followed suit: Gerd Gigerenzer's *Gut Feelings: The Intelligence of the Unconscious and Rationality for Mortals*, Dan Ariely's *Predictably Irrational* and Daniel Kahneman's *Thinking: Fast and Slow*. Although these authors (and all those who are active participants in the research effort) present insights from behavioural science with their own perspective, the picture they paint is neither one of irrationality as nonsense or rationality as some perfect outcome of reason.

More recently, Planet Research has been abuzz with talk of consumer irrationality, tales of the rule of one system and the ills of the research industry. As is usually the case, the more controversial, unexpected and sometimes aggressive the views pushed in the industry, the more attention they have received, often at the expense of bemused audiences.

Clarity around behavioural science insights, and their implications for market and social research, is essential for practitioners. Moreover, grasping how technology has been powering a new research wave in behavioural science is critical in the digital age: it informs our understanding of behaviour and our ability to 'fit around people' more effectively to impact behaviour.

MAPPING CONSUMER RATIONALITY

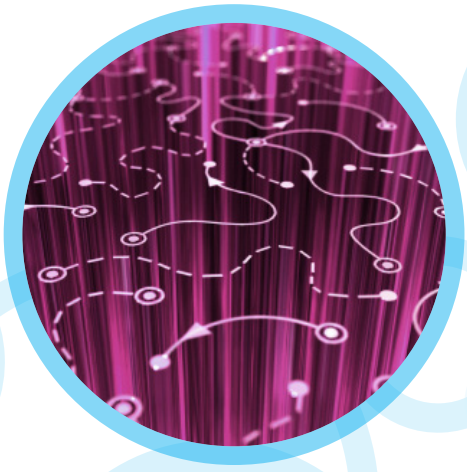
Modern economic theory expects people to behave in accordance with their preferences. That is we should expect "some elementary requirements of consistency and coherence" in how they form evaluations, value options and make choices. The fundamental principle is that people will seek to satisfy their own needs and desires (self-interest does not preclude altruism) through their choices and the process to achieve this is to maximise value (as satisfaction, wellbeing, pleasure or happiness).

In no way does economic rationality assume people are conscious of their preferences or what motivates those preferences. In other words, **rational decision making does not in essence depend on conscious (self-reflective) processing.** There is a popular view that economics assume that rational outcomes are the result of 'rational' self-reflective eyes-wide-open processes. Economics makes **no** assumption about the **actual** process underpinning valuation (only what it "ought to be" if our reason was entirely 'reasonable'). Economics is only really interested in value and preferences as determinants of choice. Psychology of course clearly demonstrates that those preferences can vary (depending on how situations are 'framed' for example) and are not always consistent, that is not rational given the very narrow framework defined by economics for rationality.

For example, economics believed that outcomes drive value, as in $50 is $50 whether it is a gain or a loss. Psychologists proved that value is very much driven by psychological process, not by outcome: on average losses are valued twice as much as equivalent gains. If this came as a surprise to some economists who thought this was irrational (meaning **inconsistent**), it would not surprise English speakers from medieval times who knew the true 'utility function' because a bird in hand is worth two in the bush[1]. It is evidently clear that preferring what we have that we could lose more than what we could obtain does not bear the hallmark of irrationality (as in making no sense).

Since Nobel recipient Herbert Simon's 1959 proposition that "if man makes decisions that have some appearance of rationality, rationality in real life must involve something **simpler than maximisation of utility**" the whole endeavour of behavioural economics has been to find out how to "map rationality" and its processes. What psychologists Amos Tversky and Daniel Kahneman and their colleagues found was "not irrational chaos (but) a reasonably coherent psychological theory of attitudes".

[1]Interestingly, French and Japanese speakers each use an entirely different turn of phrase but exactly the same two to one valuation of losses to gains.



THE GOALS OF CHOICE BEHAVIOUR

In the 1990s consumer psychologists kept on digging into Simon's idea of limited or "bounded rationality" (i.e., people will not necessarily settle "for nothing less than the best"). They uncovered four goals that decision or choice behaviour pursues:

- **S**eeking the best as in maximising experienced value (or seeking a good or better outcome)
- **A**voiding negative emotion in process or outcome (e.g., avoiding anything overwhelming or annoying or simply just making a bad decision)
- **M**inimising effort (as in mental or physical costs)
- **E**asy justification of choice to self and/or others

Context and personal situation also drive which of SAME are at work when we observe buyers in a product or service category. Besides, decision-making is so thoroughly automated in our life that we do **not** need self-awareness or self-reflection to use SAME and achieve rational outcomes (that is reasonable as opposed to poor, crummy or lousy ones).

FAST AND FRUGAL SYSTEM 1

Once behaviour is seen within a realistic perspective of being purposeful or functional but also involving costs (the latter often resulting in inertia or status quo), it is easier to appreciate that although our rationality may look quirky at times and not (nearly) exactly maximising, our brain is very adept at using a range of processes to achieve our ends. That those processes prefer to rely on what Gerd Gigerenzer calls the "fast and frugal" does not of course imply that we are irrational, especially when we rely on experiences laced with emotion to guide decisions. Cognitive psychologists have uncovered many "cognitive illusions" in how we form impressions and judgment but the short-cuts we routinely use simply point to a brain designed for efficiency (purposeful behaviour that knows cognitive and physical costs are paid cash in glucose). Besides, many situations have been uncovered experimentally where "less is more" not only cuts 'costs' but improves outcomes. Short-cuts need not be equated with biases.

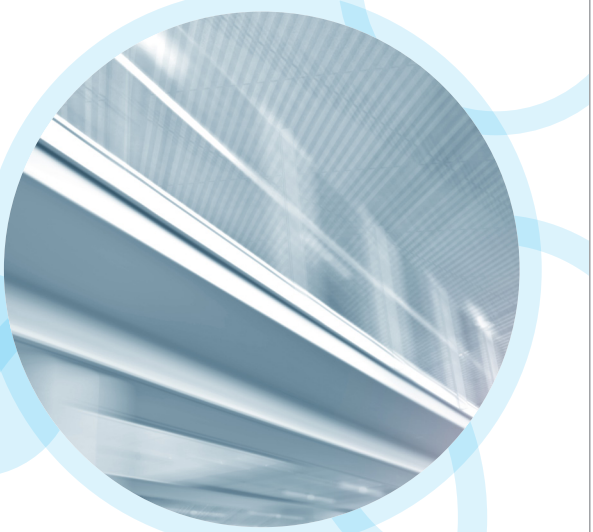
Equating System 1 with emotion and then irrationality is an inaccurate view of the role of emotion and the absence of hard thinking in decision making. When we use gut-feel to reject particular options we use emotion as a short-cut (often to avoid bad choices). When we start considering new options because we are disappointed or really annoyed that a premium-priced brand turned out to be very ordinary, we use emotion to reframe our choices. When we look, eyes wide open, at a comparative website and discover that a retailer is 25% cheaper than another one on a basket of 20 grocery products, our thoughts generate an emotional pay-off. When we hear our favourite song from the 90s at the store, it may trigger memories, change our mood and our shopping behaviour.

None of these situations imply that we necessarily act on auto-pilot or with open eyes or solely engage emotion or hard-thinking. Neither does it imply that emotional or other short-cuts lead to irrational outcomes. **Psychologists have long recognised that where there is thought, there is emotion.** The two are linked in many ways still unknown (the neural correlates), and their interactions make us wonderfully human.

Yet, the rationality that behavioural scientists started "mapping" long ago certainly has some unnerving edges. For example, behavioural experiments with people in a state of "hot cognition" describe that we can engage in sexual or other behaviours which most people would avoid in a state of "cold cognition". Prime theory neatly describes how our emotional states colour how our plans, evaluations, motives **and** impulses compete to drive our behaviour.

Although the insights are clothed in the language and form of science, this is not a new perspective, at least in Western culture. Greece was as much enamoured of reason (logos) as it was wary of the strange power of eros (the "madness of the gods") or the wild and uninhibited frenzy of Dionysus. Euripides's tragedies have the stamp of realism precisely because they emphasise our internal vulnerability, turmoils, feelings and the conflicts raging inside us. Shakespeare's own take on tragedy is not entirely different when Romeo declares to his cousin Benvolio: "love is heavy and light, bright and dark, hot and cold…it is everything except what it is!" Paul Valery's 20th century aphorism captures both the certainty and the elusiveness: "one must judge when cold and act when hot; nothing rarer to muster from circumstances and oneself".

In most cases marketers and policy makers are not concerned with situations of irrationality where non-sense, or worse, insanity prevail. They are mostly interested in the grey area where rationality can take many forms, and how they can best fit around it. **A perspective like SAME provides a useful lens to look at choice or decision-making behaviour without getting bogged down into an exaggerated irrational or narrowly economic rational view of behaviour.**



SUB-CONTRACTING SYSTEM 2

What about System 2 then? If System 1 is described as our default operating mode, when do we ever engage the more effortful and hard thinking System 2? Psychologists clearly point to using "a mixture of the two" and System 2 over-riding System 1. It is the conditions under which over-riding happens or does not happen that is of particular use to those interested in decision-making or choice behaviour either for commercial or public-policy reasons.

Consumer neuroscience provides some evidence as to how this takes place: CPG is an interesting example of neuroscience describing the conditions under which System 2 over-rides System 1. And yes, it has very much to do with past experiences and the structure of our preferences; besides, over-riding takes place because attention and processing 'costs' at the shelf are limited. In the end how we approach tasks is very much modulated by motivation and time pressure.

Notwithstanding neuroscience insights, 52 weeks of category data (such as sales and pricing) easily show that System 2 can be brutally at work in our decision processes. Similar observations can be gained in technology (e.g., devices or computers), financial services (e.g., online savings accounts or term deposits) and many other categories. Besides, the rise of aggregators or comparative websites from energy retailers to personal insurance or finance to hotels and tourism shows that when the cognitive costs are low, people are quick to over-ride System 1 processes and engage in typical System 2-based comparisons. We are **sub-contracting** much of the effort or 'cost' of an increasing number of tasks to devices (e.g., locating, searching, seeking views or sharing our experiences, comparing, transacting). People are unlikely to stop using their shortcuts but we can expect more comparing and evaluation because the cost is now paid in electricity, not glucose.

MOVING FORWARD WITH BEHAVIOURAL SCIENCE

First, sub-contracting System 2 processes to devices is a clear example of the need of marketers and public-policy makers to have a **realistic** understanding of how decision mechanisms work in the digital age, and how to develop strategies or policies that fit around the reality of people's behaviour, recognising both **constraints and opportunities in particular contexts.**

Cognitive psychology continues to provide new insights (some counter-intuitive and quite unexpected) as to how behaviour can be influenced. Often, those insights highlight the role of attention and impressions in behaviour but research shows an expanding variety of psychological mechanisms at work (for example, learned associations and beliefs on motivation).

Social psychology has also been a provider of insights for behaviour change problems, for even longer. Psychological mechanisms such as commitment and consistency, reciprocity or social proofing are well-known to sales people, retailers, real estate agents and stockbrokers (even if they only know those from experience and not by name). Psychologists continue to find new keys to increase the effectiveness of behaviour change programs for commercial and public-policy purpose.

Second, as behavioural science shows that small and usually inexpensive steps can have a disproportionate impact on behaviour, **the onus is on marketers and policy-makers to recognise situations and apply those insights more systematically.** The return of investment into creativity is almost entirely predicated on a systematic approach leading to perceptive insights. Yet, behavioural challenges are often not clearly articulated and specifically unpacked. In other words, not being systematic enough and making unwarranted assumptions about behaviour is often the primary source of costly disappointments (and poor use of shareholder, client or public money).

Every time reviews around the behaviour of consumers, shoppers, customers, patients, healthcare professionals, and users of public services situations are **more systematically informed by behavioural science principles** (many long standing and others more recent), we see gains.

ABOUT THE AUTHOR

Pascal Bourgeat, Ph.D.
Director Behavioural Science
Ipsos Australia
pascal.bourgeat@ipsos.com

Pascal Bourgeat, Ph.D. (Consumer Behaviour) is Director of Behavioural Science at Ipsos Australia. He designs research and works with private and public sector clients and Ipsos teams on a range of behaviour change issues: CPG consumers and shoppers, customers of service sector companies, users of public sector services like health and transport, patients and healthcare professionals and more.

ABOUT IPSOS

Ipsos is an independent market research company controlled and managed by research professionals. Founded in France in 1975, Ipsos has grown into a worldwide research group with a strong presence in all key markets. Ipsos ranks third in the global research industry.

At Ipsos we are passionately curious about people, markets, brands and society. We make our changing world easier and faster to navigate and inspire clients to make smarter decisions. We deliver with security, speed, simplicity and substance. We are Game Changers.

With offices in 87 countries, Ipsos delivers insightful expertise across six research specializations: advertising, customer loyalty, marketing, media, public affairs research, and survey management.

Ipsos researchers assess market potential and interpret market trends. They develop and build brands. They help clients build long-term relationships with their customers. They test advertising and study audience responses to various media and they measure public opinion around the globe.

Visit **www.ipsos.com** to learn more about Ipsos' offerings and capabilities.

GAME CHANGERS