

# REPUTATIONAL EFFECTS AND PERCEIVED VALUE OF “SMART HEURISTICS” VS NORMATIVE ADVISORS’ RECOMMENDATIONS

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## Introduction

Taking others advice is a crucial component of ecological decision making. This advice could concern both the decisional content (for example, providing information or forecasts) and the decisional process. We focused on the latter kind, inspired by the classic anecdote of the professor that, struggling to decide whether to accept a position in a prestigious university, has asked a colleague for advice. This colleague suggests for him to adopt a normative compensatory decisional process. This rigorous decisional process recommendation elicits a surprising devaluing reaction from the decision maker: “Leave the theory behind, this is a serious decision!”. Actually the research on giving and taking advice highlights the social implications of these processes (Sniezek & Buckley, 1995; Yates, Price, Lee, & Ramirez, 1996).

The advising/consulting business is particularly relevant in the public administration sector in Italy both in terms of its potential for systems development and for its collective cost, estimated to be more than 2 billion euros for both the central and local administrations; weighing around 70 euros for each tax payer ([www.ilsole24ore.com/pdf2010/Editrice/.../Online/\\_.../new-costipolitica-2013.pdf](http://www.ilsole24ore.com/pdf2010/Editrice/.../Online/_.../new-costipolitica-2013.pdf))

Earlier research has tended to focus on the advisor’s *prior social perceptions* which could facilitate or obstruct the actual application of the recommendations. This research discovered the critical role of trust (fed by “honest signals”), reputation, perceived expertise, wisdom, maturity, and expressed confidence of the advisor. Counterintuitively, research on financial advisors highlighted that decision makers are not affected by a potential conflict of interest of their advisor, instead they seem to adopt an “advice taking heuristic” which leads them to blindly rely on the trusted advisor who is simply asked: “invest my money as if it was your mother’s money!” (Monti, Pelligra, Martignon & Berg, 2014).

Our research contributes to developing a more complete vision of these social processes investigating also the *consequential social perceptions* of the advisor providing normative vs heuristic recommendations to the decision maker.

The literature suggests either that advice complexity can improve the perception of the advisor as an expert, or that simple, extreme and overconfident advisors are more appreciated (Gino & Moore, 2007; Price & Stone, 2004). Other research suggests that the relationship between advisors’ style and their appreciation could be mediated by the decision maker’s cognitive style or personality traits (for example, authoritarianism; Kemmelmeier, 2010).

In the present study we capitalize on these suggestions also measuring the *Need for Closure* of the decision makers receiving advice based on fast and frugal “smart heuristics” (for example, 1/n portfolio’s creation heuristic) rather than normative models (for example, Markowitz’s Mean-Variance Analysis).

Furthermore, since the experts' advice is usually severely discounted and therefore not followed by the decision makers, research on advice taking focused on identifying strategic factors capable of mitigating this phenomena, beyond the aforementioned reputational effects.

Gino et al. (2008) found that, because of the sunk cost effect, decision makers tend to adopt expensively paid for advice significantly more than cheap or free advice. Therefore, to the best of our knowledge, we also conducted the first preliminary study investigating the willingness to pay (i.e. the perceived value) for a normative vs a heuristic decisional process recommendation.

## **Method**

Two-hundred and thirty participants were asked to be involved in a 5 ("smart heuristic" dominating scenario: recognition vs circle vs 1/n vs hiatus vs titxtat) x 2 (heuristic vs normative model) factors between-subjects experimental design. In each condition, participants were assigned the role of a decision maker facing one of five specific problems (for example, making a bet on the Wimbledon winners). Participants then imagined themselves consulting with an advisor who gave them a recommendation. Depending on the experimental condition, participants received a brief text of similar length (around 50 words) and with a comparable level of comprehensibility across the 10 conditions, recommending the adoption of a "smart heuristic" (for example, guessing the winner by querying non-experts and then applying the recognition heuristic) or the adoption of a normative model (i.e. weighing the players on the basis of their Pro Tennis Ranking). The decisional problem and the recommendation were formulated in order to make the "smart heuristic" advice dominate the normative model on the basis of the literature (Gigerenzer & Gaissmaier, 2011). After the recommendation administration, participants were asked to express their social perception of the advisor through a semantic differential scale investigating 12 dimensions (for example, expertise, reliability, fastness, superficiality, effectiveness, likeability and intelligence). Finally, participants were asked to indicate how much money they thought the recommendation was worth and to fill out a short version of the *Need for Closure* questionnaire.

## **Results**

The social perception of the advisor providing a "smart heuristic" (rather than a normative) recommendation was dramatically worse in all the investigated dimensions and for all the proposed scenarios. Paradoxically the normative advisor was perceived to be even quicker than the heuristic advisor. The mean willingness to pay for "smart advice" was 136 euros while participants were willing to offer up to 290 euros for normative advice, not recognizing that the former dominated the latter. This surprising pattern was stable through the differences in the participants' Need for Closure.

## **Discussion**

"Smart Heuristic" proponents face a double challenge. The first one, now well consolidated, is to rigorously demonstrate that, in specific contexts, fast and frugal heuristics can be both more efficient and more effective than applying the normative model. The second challenge, maybe more subtle, is to promote (or to nudge) the perceived social and economic value of "smart" recommendations so as to mitigate the phenomenon we observed in our preliminary study and that we could label as "complexity valuing bias". Future research should focus on finding and testing strategies capable of mitigating this bias, strategies that could be used by advisors who wish to recommend "smart heuristics" without risking to be perceived as superficial, inexpert, unreliable, and even slow. The beneficial effects of these strategies would not be limited to social perceptions, but they likely could affect the actual propensity to apply the advice given. In fact, the reputational factor appears crucial for contrasting the common decision makers' tendency to severely discount

the recommendations received (Yaniv & Kleinberger, 2000). Therefore, only an advisor armored with both a repertoire of adaptive fast and frugal heuristics, and a repertoire of the aforementioned impression management strategies could be fully defined as a “smart consultant”.

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