

Behavioral Influences on Decision Making

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ABSTRACT

Most of the Traditional models and theories of decision making are based on cognitive thinking or rational evaluation of available alternative but as the time goes on we experienced that we are not always influenced by our cognitive mind but sometime we are also sways by our emotions and mood fluctuations. This paper aim to identify the role of emotion in consumer decision-making through literature review and conclude that emotion is having a significant influence on the buying decision of the investors and marketers must understand these emotions to being successful in the market.

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INTRODUCTION

In our day today life many times we forced to think that particular decision is the outcome of cognition or emotion. Most of us believe that the choices we make are an outcome of our rational analysis of available alternatives. But, in reality, emotions influence people to a greater extent and, in many circumstances even determine our decisions. When we are confronted with different alternatives to take decision, related emotions from previous belief and experiences affix values to the options. These emotions create preferences and choices that result in our decision. The influential role of emotion is well documented and a large body of theories and researches support the facts that emotion and moods can profoundly influence cognitive process. (Clore, Schwarz, & Conway, 1994; Forgas, 1995; Schwarz & Clore, 1996). We can see our emotional involvement when selecting brands, consumers initially use emotions rather than information like brand attributes, features, and facts. Other documented contribution is from advertisement research which reveals that emotional response to an ad has far greater influence on a consumer's reported intent to buy a product than does the ad's content – by a factor of 3-to-1 for television commercials and 2-to-1 for print ads. Research conducted by the Advertising Research Foundation concluded that the emotion of "likeability" is the measure most predictive of whether an advertisement will increase a brand's sales. Studies show that positive emotions toward a brand have far greater influence on consumer loyalty than trust and other judgments which are based on a brand's attributes.

BEHAVIORAL INFLUENCE ON DECISION MAKING

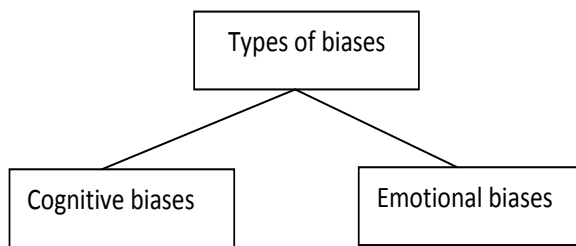
When individual confronted with some alternatives, primarily they recall information from their memory that match or congruent with their current feeling. (Bower, 1981; Isen, Shalke, Clark, & Karp, 1978). Individuals are aware that their feelings are due to a source unrelated to the target, thus Emotions are the primary reason why consumers prefer brand

name products. After all, many of the products we buy are available as generic and store brands with the same ingredients and at cheaper prices. Why do we decide to pay more for brand name products?

A nationally advertised brand has power in the marketplace because it creates an emotional connection to the consumer. A brand is nothing more than a mental representation of a product in the consumer's mind. If the representation consists only of the product's attributes, features, and other information, there are no emotional links to influence consumer preference and action. The richer the emotional content of a brand's mental representation, the more likely the consumer will be a loyal user. We can say that these type of decisions are least rational like when we considering intuitional models of decision making, it is basically based on distil sort of experiences and intuitions. It is emotionally charged, and carries emotional process of decision making. But when we are taking any decision on the basic of intuition that does not mean it is wrong, because all the emotional decisions are not always act opposite to the rational decision making.

So, one question arise that is intuition is something that depends on experiences that have been gathered through years, belief and perception that has been developed through years and we measured it in past and have already tested it and it lies in our unconscious level and we are actually utilize that for making any decision. It does not mean that it is based on stereotype but yes we have a certain foresight and hindsight like when you are talking of intuitive decision making and sometimes it works because again it depends on the storehouse of knowledge and though and some because it sometimes not quantifiable, people do not try to like rely to on this intuitive decision making, but it works sometime, so what is the best option could be like to work for both going hand in hand for both rational decision making processes and intuitive decision making processes.

When we take decision which is swayed by emotion and intuition than we commit some errors and those errors are known as behavioral biases. There are numbers of behavioral biases which influences the people decisions making and these biases can be divided into two categories, cognitive biases and emotional biases.



1. **Cognitive biases** are those which stem from statistical, information processing or memory errors based on faulty reasoning and can be corrected through better information or education. It is further divided on the basis of belief perseverance and information processing error. On the basis of belief perseverance error there are five biases- conservatism bias, confirmation bias, representativeness bias, illusion of control bias and hindsight bias.

1.1 Belief Perseverance Error

Conservatism bias- maintains prior views by inadequately in corporation new information.

Confirmation bias- looking for and noticing what confirms their prior beliefs.

Representativeness bias – it is based on stereotypes where people use to take decision on the basis of recent past information.

Illusion of control bias- incorrectly believe that they can control or influence outcomes.

seeing past events as predictable.

1.2 Informational error:

We humans have limited capability of information processing and due to lack capability it is not possible to digest all the available information. There are various types of biases which happen due to lack of information processing ability like mental accounting, availability heuristics, anchoring and framing bias.

Mental Accounting: all the investment are not integrated, people open different account as per the objective of investment or gains and losses. Like investors keep insurance purchase in different account and risky lottery purchase in different mental accounting and these accounts are closed when particular investment is sold out.

Availability Heuristics: contrast to the rational investors, most of the investors are having limited capability to processes complex information which is known as bounded rationality and their use heuristics (rule of thumb) for decision-making.

Anchoring: investors calculate their loss or gain from their reference point and take hold or sell decision according to the past price which may me a purchase price of the investment or it may be previous day price or reference point is basically differ from person to person.

Framing effect: investors react differently to the different presentation of same problem, if presentation is changed than

the response of investors is also change accordingly, which means that investors are influenced by the framing effect.

2. **Emotional biases** are incurred due to different emotion like fear, hope and greed and which are not easy to correct. There are many biases which is due influence of different emotion on decisions making process like loss aversion, overconfidence, status quo, self control, endowment and regret aversion.

Loss aversion: standard theories of finance explains that the investors are risk averse but after various studies it is seen that investors is have a fear of loss their not having any problem with the profit of the investment, that why normal investors are loss aversion. They do not want to avoid risk of loss.

Overconfidence: Overconfidence is the tendency for people to overestimate their knowledge, abilities and the precision of their information. Due to overconfidence people use to overestimate its private information and underestimate public information.

CONCLUSION

There are various behavioral biases which influence the investors' investment decisions and investors cognitive thinking, emotional reaction and social interaction play very important role in investment decision making. So, marketer need to understand these bounded thinking capability, emotional involvement and affect of social media and social interaction to target the investors with the product which maximizing the utility of their investors and help in maintaining long term relationship.

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