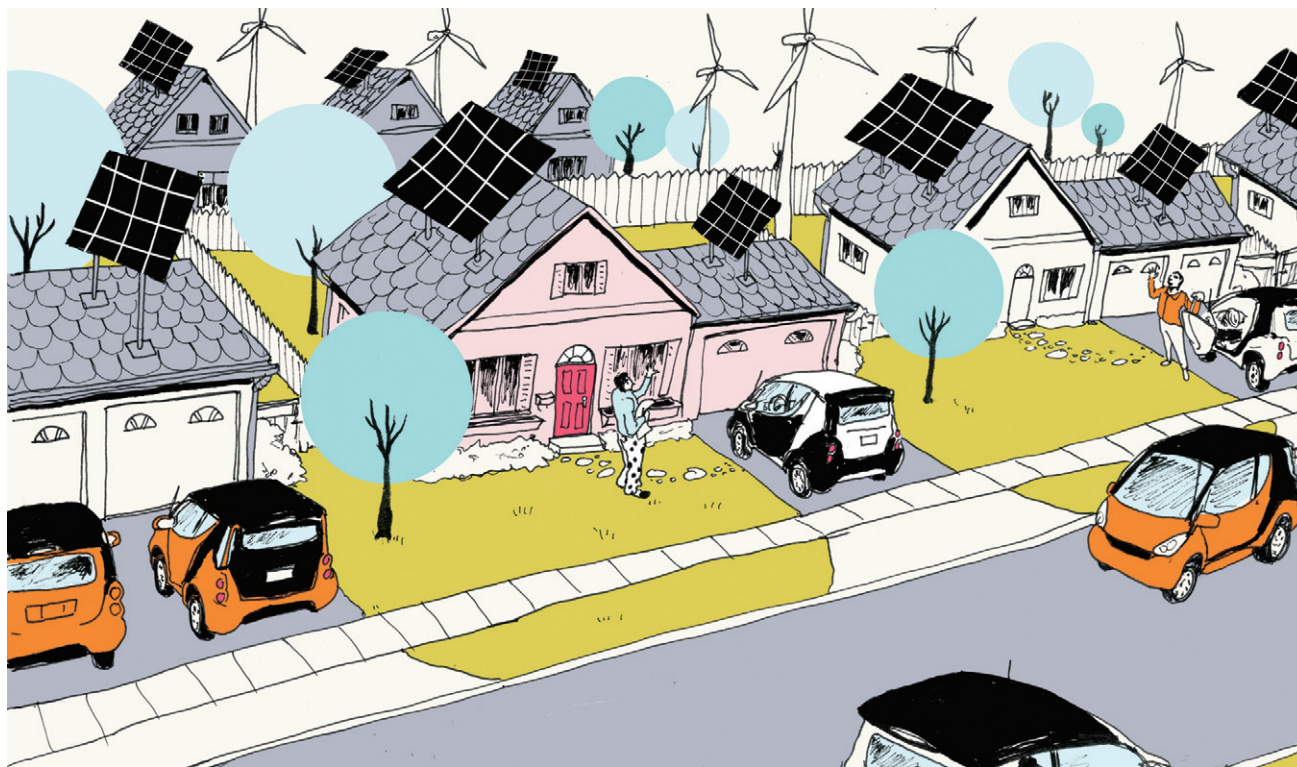


forethought

A survey of ideas, trends, people, and practices on the business horizon



GRIST

How Concepts Affect Consumption

by Dan Ariely and Michael I. Norton

Our prehistoric ancestors spent much of their waking hours foraging for and consuming food, an instinct that obviously paid off. Today this instinct is no less powerful, but for billions of us it's satisfied in the minutes it takes to swing by the store and pop a meal in the microwave. With our physical needs sated and time on our hands, increasingly we're finding psychological outlets for this drive, by seeking out and consuming concepts.

Conceptual consumption strongly influences physical consumption. Keep-

ing up with the Joneses is an obvious example. The SUV in the driveway is only partly about the need for transport; the concept consumed is status. Dozens of studies tease out the many ways in which concepts influence people's consumption, independent of the physical thing being consumed. Here are just three of the classes of conceptual consumption that we and others have identified.

Consuming expectations. People's expectation about the value of what they're consuming profoundly affects

their experience. We know that people have favorite beverage brands, for instance, but in blind taste tests they frequently can't tell one from another: The value that marketers attach to the brand, rather than the drink's flavor, is often what truly adds to the taste experience. Recent brain-imaging studies show that when people believe they're drinking expensive wine, their reward circuitry is more active than when they think they're drinking cheap wine – even when the wines are identical. Similarly, when people believe they're taking

Michael Byers

cheap painkillers, they experience less relief than when they take the same but higher-priced pills.

Consuming goals. Pursuing a goal can be a powerful trigger for consumption. At a convenience store where the average purchase was \$4, researchers gave some customers coupons that offered \$1 off any purchase of \$6, and others coupons that offered \$1 off any purchase of at least \$2. Customers who received the coupon that required a \$6 purchase increased their spending in an effort to receive their dollar off; more interestingly, those customers who received the coupon that required only a \$2 purchase to receive the dollar off actually decreased their spending from their typical \$4, though of course they would have received their dollar off had they spent \$4. Consuming the specific goal implied by the coupon – receiving a savings on a purchase of a designated amount – trumped people's initial inclinations. Customers who received the \$2 coupon left the store with fewer items than they had intended to buy.

Consuming memories. One study of how memories influence consumption explored the phenomenon whereby people who have truly enjoyed an experience, such as a special evening out, sometimes prefer not to repeat it. We might expect that they would want to experience such an evening again; but by forgoing repeat visits, they are preserving their ability to consume the pure memory – the concept – of that evening forever, without the risk of polluting it with a less-special evening.

So concepts not only can influence people to consume more physical stuff, but also can encourage them to consume less. Offering people a chance to trade undesirable physical consumption for conceptual consumption is one way to help them make wiser choices. In Sacramento, for example, if people use

DOWNSIZING

After Layoffs, Help Survivors Be More Effective

by Anthony J. Nyberg and Charlie O. Trevor

If your firm has downsized recently, you're now managing a bunch of survivors – the lucky ones who didn't get laid off. But good fortune doesn't make for good performance – at least not in this situation. Chances are, you're presiding over a heightened level of employee dysfunction, even if you don't see it yet. Here are areas to address to limit the damage, according to our research and influential studies by others, including Teresa Amabile of Harvard, Regina Conti of Colgate, Wayne Cascio of the University of Colorado, Joel Brockner of Columbia, and Priti Pradhan Shah of the University of Minnesota.

Creativity. Evidence from several researchers suggests that downsizing dampens survivors' creativity – a potentially dangerous development for almost any company. To offset the drain on innovative energy, managers should put renewed effort into team building. Maintaining or improving work-group stability and providing challenging work stimulates creativity.

Communication. Downsizing tends to disrupt social networks and information exchange within companies, adding to employees' negative feelings. Leaders should encourage increased contact among managers and employees, promote active listening, institute open-door policies, and get employee input into decision making.

Perceptions. Layoffs tend to increase employees' levels of stress, burnout, and insecurity and to decrease morale, job satisfaction, and trust. Such perceptual changes are linked to greater turnover, diminished willingness of employees to help one another, and poorer job and company performance. Managers need to help employees see the downsizing process as fair and show that other options had been considered first. A moratorium on future layoffs, even if it has an explicit end point, might also be helpful. One study found that the anticipation of downsizing can have an even stronger effect than layoffs themselves on employees' negative perceptions of their work environment.

Turnover. Our own research shows a substantial increase in voluntary departures after layoffs, even if the downsizing was small. The costs of being understaffed and of employee replacement and training are particularly unwelcome when a company is attempting to save money. All the above recommendations can help limit voluntary turnover. And for the future, institute HR policies that promote a sense of justice, such as confidential problem-solving avenues and effective grievance or appeals processes. Companies with those policies had smaller increases in voluntary turnover after layoffs.

Stars. Pay special attention to high performers. Research by one of us (Trevor) shows that those with the most training, education, and ability are the most likely to quit if dissatisfied. Provide support and encouragement, and help them see that downsizing opens new opportunities and channels for promotion.

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less energy than their neighbors, they get a smiley face on their utility bill (or two if they're really good) – a tactic that has reduced energy use in the district and is now being employed in Chicago, Seattle, and eight other cities. In this case, people forgo energy consumption in order to consume the concept of being greener than their neighbors.

We suggest that examining people's motivations through the lens of conceptual consumption can help policy makers, marketers, and managers craft incentives to drive desired behavior – for better or for worse.

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RISK MANAGEMENT

Too Big to Fail? How About Too Big to Exist?

by Duncan Watts

In 1996 a single power-line failure in Oregon led to a massive cascade of power outages that spread across all the states west of the Rocky Mountains, leaving tens of millions of people without electricity. Over the past year we have experienced a different kind of cascade in the financial system, which has produced the equivalent of a global blackout. Having studied the dynamics of cascades in complex systems, I suspect that the most damaging ones are impossible to anticipate with any confidence. The solution may therefore be to make the system less complex to start with, in order to reduce the chance that any one part can trigger a catastrophic chain of events. In the financial system, this means limiting how big companies are allowed to become.



As governments struggle to fix the crisis, plenty of experts have weighed in on its causes, from excess leverage to lax oversight to faulty compensation structures. These explanations can account for how individual banks, hedge funds, and so on got themselves into trouble, but they gloss over the larger question of how all these institutions, acting independently, managed collectively to put trillions of dollars at risk without being detected.

This risk was invisible because it was systemic – it resulted from the unpredictable interplay of myriad parts in the system. Think about power grids again. Engineers can reliably assess the risk that any single power generator in the network will fail under some given set of conditions. But once a cascade starts, they can no longer know what those conditions will be for each generator – because conditions could change dramatically depending on what else happens in the network. The result is that systemic risk, which can cause the system as a whole to fail, is not related in any simple way to the risk profiles of the system's parts.

Financial systems are arguably far more complex than power grids, but the fundamental problem of systemic risk is the same: Risk managers are only able to assess their own institutions' exposure

on the assumption that conditions in the rest of the financial world remain predictable, but in a crisis these conditions change unpredictably. No one anticipated that an investment bank the size of Lehman Brothers could collapse as suddenly as it did, so no risk managers built that contingency into their models.

How do we reduce the risk of cascades in the financial system? One approach builds on the way regulators currently make judgments about systemic risk, in particular when they decide that some institutions are too big to fail. There are lots of problems with these judgments, as the Lehman Brothers fiasco revealed, but the most serious is that they are made after a crisis emerges, at which point only drastic responses are available. A better approach, therefore, would be for regulators to routinely review firms and ask: "Is this company too big to fail?" If yes, the firm could be required to downsize or shed business lines until regulators were satisfied that its failure would no longer pose a risk to the whole system. Correspondingly, proposed mergers and acquisitions could be reviewed for their potential to create an entity that would be too big to fail.

Governments telling firms what they can and can't do sounds like dangerous meddling in free markets. But antitrust law already permits regulators to prevent firms from growing in ways that stifle competition, and somehow our free market has survived. The current crisis has demonstrated that markets do not automatically control systemic risk, any more than they automatically create competition. Pragmatically speaking, therefore, government intervention is required to prevent markets from destroying themselves, and the relevant question is what kind of intervention is effective. The answer will be complicated, but it should include this simple principle: Firms should not be allowed to grow too big to fail in the first place.

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