

A Brief Introduction to Choice Architecture

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Abstract

Thaler, et al., (2008)¹ the pioneer of ‘Choice Architecture’ says that decision makers don’t make decisions in vacuum but make them in an environment where many features, noticed and unnoticed, can influence their decisions. The person who creates that environment is, in our terminology, is a choice architect. Choice architects are those people who influence the choices that people, organisation's and various individuals make. What decisions we make depends on how we frame our choices and how the choices are presented to the decision maker. The architecture of choice is present everywhere in our daily lives. The choices we make are becoming more complicated day by day because of the complexities in life are also increasing and becoming more unpredictable. Choice architecture can range from different parts of the society like the farmers, academia, economists, politicians, industrialists including entrepreneurs, Finance Managers, Marketing Managers, Human Resources, entertainers and other influential persons. People who can influence others and the society must be careful as they make choices because they will impact others in the society and that includes the Nation’s future as well.

Introduction to Choice Architecture

Shakespeare’s famous quote from Hamlet, "To be, or not to be, that is the question," highlights the profound impact of a choice. Understanding that, Choice architecture rose as the science of decision making. Thaler, et al. (2008)¹, the pioneer of ‘Choice According to architecture, decision-makers don't make choices in a vacuum; instead, they do it in a setting where a variety of factors, both obvious and hidden, might affect their choices. We refer to the individual who designs that environment as a *choice architect*.

Branch of psychology referred as behavioral economics investigates how people make financial decisions. Every choice that an individual or organisation makes will have a ripple effect and impact on the other options and decisions we make. Among the elements influencing behavior are discrimination, choice architecture, cognitive biases, bounded rationality, and herd mentality.

Choice architects are those people who influence the choices that people, organisation, and various individuals make. The decisions we make depend on how we frame our choices and how those choices are presented to decision maker. Architecture of choice is present in our daily lives everywhere. The choices we make are becoming more complicated day by day because the complexities in life are also increasing and becoming more unpredictable. Choice architecture can range from different parts of society, like the farmers, academia, economists, politicians, industrialists, including entrepreneurs, Finance Managers, Marketing Managers, Human Resources, entertainers, and other influential persons. People who can influence others and society must be careful as they make choices because they will impact others in society, and that includes the Nation’s future as well.

Adrian R. Camilleri and Rick P. Larrick (2015)² mention choice architecture as metaphor that encapsulates notion that every decision is made inside a framework of task and contextual characteristics. Consequently, these characteristics aid in "constructing" an individual's decision. (Lichtenstein & Slovic, 2006; Payne, Bettman, & Johnson, 1992)³. Additionally, they claimed that the idea of choice architecture makes it clear that there is no such thing as a neutral choice architecture because each decision, from choosing a meal to choosing a lifetime partner, is influenced by the setting in which it is made. The idea just adds choice architecture as an additional contributing aspect; it does not negate the reality that people's choices are influenced by their values, ambitions, attitudes, or preferences.

Choice architecture—also referred to as nudging or libertarian paternalism—comes from a long tradition of scholars and intellectuals who sought to protect individual freedom of choice while assisting decision-makers in making decisions that would be the most logical for them. (Tony Gardella et al., *Applying the Choice Architecture Framework*)⁴

Choice Architecture and Decision Making:

Decisions are generally made on the basis of future course of events that can happen. Napoleon Bonaparte once said that there is nothing more difficult, and therefore more precious, than to be able to decide. Well, having an opportunity and freedom to decide is one aspect, and being able to make a good decision is another. When given a chance to decide, one must put in all efforts to make the right decision. Phil McGraw said that “Sometimes you make the right decision, sometimes you make the decision right.” It depends on how the choices are presented to us in the light of a specific environment. Choice architecture helps in creating an environment with set preferences. Thaler clearly defined choice architecture as presentation of choices in distinct ways to effect decision-making.

Great moments in the decision sciences



Decision making and human brain:

The earliest history of thought contains the idea of a decision-making process. Deliberate and logical reasoning ought to guide decisions. Sam Dabir, in his article, Neuroscience of Decision Making (2024)⁶, says that various areas of brain play important roles in decision-making. Prefrontal cortex, sometimes known as brain's executive center, is also major player in higher-order cognitive functions including planning, reasoning, decision-making, according to author. When it comes to weighing possibilities and

making decisions based on prior experiences and future objectives, dorsolateral prefrontal cortex of prefrontal cortex is very crucial. The limbic system, which processes memories and emotions and contains parts like the hippocampus and amygdala, also affects decision-making. Specifically, emotions have the power to greatly influence our decisions, often causing us to act irrationally. Instead of being a solitary activity, decision-making is cooperative process coordinated by interrelated brain circuits. Neurotransmitters, including dopamine and serotonin, which affect mood, motivation, or reward processing, are used by these circuits to interact. Specifically, dopamine was connected to sensation and expectation of rewards, forming our preferences as well as affecting our choices. Additionally, multiple brain pathways linked to various kinds of choices have been found by neuroscientists. In contrast to decisions based on known routines, which depend on well-established neural pathways, decisions including risk or uncertainty tend to activate brain's reward system more powerfully. Many external factors influence every decision taken by a person. Briefly looking into these factors helps us understand how to avoid certain influences and enhance some others.⁷



Problematic behaviors due to cognitive issues can be identified and choices can be presented in such a way that the consumer can make a decision without much hassle. This involves continuous monitoring, data analysis, and adaptation to evolving consumer expectations.

J. S. Blumenthal-Barby⁸ says that studies in social sciences have shed light on 2 essential phenomena. One is that people frequently make decisions that are counterproductive to their goals due to expected biases and mistakes in human decision-making, which he refers to as "bad choice phenomenon." Second phenomenon is that the environment has significant effect on decisions and behaviors of peoples in logically irrelevant ways. The presentation of alternatives, their sequence, their tone, and even the room's scent are all included in this. He referred to this as "influence phenomenon." Here is where Choice architects step in to help decision makers make the right choices.

Thaler et al. (2012), 9 in "The Behavioral Foundations of Public Policy, Ch 25", say that small or apparently insignificant details can have significant effects on individuals' performance. It's a good idea to assume that "everything matters." Even something as seemingly insignificant as shape of door handle.

When good choices are presented, there will not be ‘resistance’ from the ones who are supposed to implement them, therefore reducing trouble to the policy makers.

Choice architecture and Marketers

New class of choice architects has emerged with the goal of making better choices for people or society. Marketers were involved in the choice architecture industry from its inception, with the intention of making money by selling goods and services. According to Richard H. Thaler and Cass R. Sunstein (2008)¹⁰, philosophy behind this new class of choice architects is that by understanding human thought processes, choice architects can create choice structures that facilitate people's ability to make decisions that are best for themselves, their families, as well as society without limiting their freedom of choice (Johnson, et al. 2012)¹¹.

Tools of Choice architects

There are many tools used in choice architecture, according to many researchers. There are 3 major kinds of choice architecture are:

Defaults,

Information restructuring,

and Information feedback.

Defaults are the options which will be selected automatically if no one intervenes to change it. One of the most powerful types of choice architecture is the existence of a default (Smith, Johnson, & Goldstein, 2013)¹².

Retirement savings have been one of the most effective uses of defaults. The scheme that Madrian and Shea (2001)¹³ examined changed whether workers were automatically enrolled in a retirement program and had to opt out, or if they had to choose to participate. The percentage of people taking part in the retirement program rose from about 50% to over 85%.

People have limited capacity to process information. (Miller, 1956¹³; Newell & Simon, 1972)¹⁴. Presenting information in an easily processed format is general approach in design of useful choice architectures.

Information restructuring is all about presenting information in format that is easy for people to process—this requires a solid understanding of what people want to achieve and the limitations that get in the way.

Finally, **Information feedback** is the linking of action and outcome to have people learn from their actions and change their behavior. Each of these tools is commonly applied through the use of nudges to help subtly construct people's choices to influence their behavior.

Benefits of learning Choice architecture for Marketers

Businesses use Choice architecture to understand the choices made by consumers and then try to influence their decisions. This tool helps them to increase their sales and profits. Information, options, and incentives are arranged and presented in a way that influences people's behavior and decision-making.

Saher Adukia,(2023)¹⁶, asserts that although choice architecture and traditional marketing are two different ideas, they can be combined to produce marketing strategies that are more successful.

Consumers often feel overwhelmed by too many choices provided by the Business organisations. To simplify decision-making, they rely on mental shortcuts or heuristic rules. Marketers can leverage this by designing environments where the "best" or most desirable choices are easy to spot.

One of most effective tools of choice architecture in marketing is Default options. In the most of purchases, consumers tend to like the option of “default” rather than filling up all the details again and again. This gives the marketers a chance to show the possible alternatives with the information they have about the consumer, and they would buy it comfortably.

According to Joel Ozu¹⁷, opine that market is filled with endless options, and how choices are presented to consumers can significantly influence the decisions they make. This is where “choice architecture” comes into play, a concept rooted in consumer psychology that marketers and advertisers use to guide customer behavior subtly. Through strategic framing of options, brands can influence consumers to make choices that support their objectives. The author further explained the role of Choice architecture through simple examples like –

Default options

1. Offering a default plan in a tiered pricing system can increase conversions for that specific plan.
2. Setting auto-renewal for subscription-based services encourages long-term customer retention.
3. Sending reminders before the auto-renewal date is a good way to manage and engage the customer.

Framing

Another tool used by marketing executives as part of choice architecture is “Framing”. Presenting the same information in different ways can influence perception. Consider how “80% lean” meat sounds healthier than “20% fat,” even though both describe the same product. Joel Ozu says that how information is “framed” can drastically alter consumer decisions. Studies have shown that people react differently depending on whether an option is presented as a gain or a loss, even if the outcome is identical. He explains the same through an example: consumers are more likely to choose an insurance plan that advertises "95% customer satisfaction" than one that highlights "5% dissatisfaction."

How we present our products, matching consumers' preferences, is the key to increasing sales. It helps us to simplify the consumers' choices and help them to make better decisions. From how we design the layout of the store through various displays and how we allow the consumer to navigate through the products, the words that we use in our advertisements, the colors we use, help consumers to avoid “decision fatigue”.

Conclusion:

From Choice architecture to Choice engineering

To influence choices made by others is an art desired by all humans. Teachers influence students, doctors their patients, salesmen, politicians and other professionals also will have to influence others to get work done. If consumers' buying behavior is unpredictable, chasing after an invisible character without proper preparation is dangerous. We must study the behaviour, provide the environment, display the products and services in their desired preferences, and influence the consumer to buy the product. To explain how behavioral economics knowledge might be applied to influence decisions without altering their objective values, Thaler created the term "choice architecture." To influence behavior, choice architecture makes use of qualitative psychological concepts. The use of quantitative models to influence

behavior is currently gaining popularity. Choice engineering is derived from choice architecture in quantitative models (Ohad Dan & Yonatan Loewenstein, 2019),¹⁸. In view of choice engineering, we can find that it also brings in ‘competition management’ into researchers' consideration. We emphasize options, prizes, and repetition in this competition. Further, the author suggests to continue further research in the domain of quantitative models, methods to present choices and identify rewards that change behaviors and monitor the changed behaviors for future strategy implementations.

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