Competition fever: Most people overestimate their power of self-control

Study examines behavior in competitions and auctions

Berlin, 29 June 2018 – Would you pay more than €10 for a €10 bill? Probably not. Unless you’re gripped by competition fever. Most people in competition fever pay too much, even if they previously set themselves a limit. A study by researchers at the Max Planck Institute for Human Development in Berlin and the IESE Business School in Barcelona, newly published in the *Journal of Behavioral Decision Making*, has investigated why that is the case.

Winning a competition or an auction does not necessarily mean that you are getting a good deal. In some cases, the resources invested add up to more than the outcome is worth—for example, in patent races, when several organizations are working on developing a new technology, but only the fastest team can file the patent. When competition fever hits, many people are no longer able to respond rationally and apply strategies they planned in a cooler moment. They underestimate their visceral, emotional response to competition and its influence on the situation—a phenomenon known in the literature as the “hot-cold empathy gap.” Bidders may also get caught up in escalatory behavior during an auction, feeling committed to a previous decision. In these situations, they are determined to win at all costs, even if they now have access to new information indicating that it would make more sense to walk away.

But what causes people to get caught up in this kind of escalatory behavior, and how can it be averted? Researchers at the Max Planck Institute for Human Development in Berlin and the IESE Business School in Barcelona have investigated these questions.

The researchers recruited a total of 141 people to participate in auction experiments in a laboratory in Switzerland. The various participant groups included students as well as executives with experience of competitive business environments. In addition, 1,194 U.S. adults participated in online auction and escalation experiments. All participants had to make decisions under time pressure, which triggered escalatory behavior. In both the laboratory and online settings, participants played the “dollar auction” game, which is often also used in management training seminars. In the escalation experiment, they played a “chicken game.”

Because the researchers wanted to find out how to prevent people from making rash decisions, they varied the conditions of the games in the experiments. Specifically, they investigated whether it made any difference if the players (a) were informed about other players’ bids and could learn from the other players’ experience, (b) set themselves an upper limit, or (c) could learn from playing several rounds of a game. In another condition, players first participated in an auction experiment as training for the escalation game to see whether the experience from the auction game was generalizable to other games.

“The findings show that participants’ learning outcomes were best when they did the auction experiment a second time, or when they had the opportunity to learn from other people’s experience. Those participants were more likely to drop out of the auctions and lost less money,”
says Sebastian Hafenbrädl, Assistant Professor of Managing People in Organizations at the IESE Business School. The researchers were surprised to find that participants did not benefit from mentally preparing themselves for the situation by, for example, setting an upper limit for their bid. They misjudged their behavior in the heat of the moment and did not stick to the plans they had made in a more rational state of mind. Contrary to current theories, mental preparation of this kind did not help to prevent escalatory behavior. Quite the reverse; escalatory behavior on average increased. The findings also showed that the experience participants gathered in the auction experiment was generalizable to other games.

“Our study shows that most people overestimate their power of self-control and don’t realize what’s happening until it’s too late. It would make sense for people who encounter this kind of escalation in their work to learn to deal with it in a safe environment, such as training seminars, instead of running the risk of losing money right away,” says Jan K. Woike, researcher in the Center for Adaptive Rationality at the Max Planck Institute for Human Development.

Original Publication

Max Planck Institute for Human Development
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