

## Consequences of regret aversion in real life: The case of the Dutch postcode lottery<sup>☆</sup>

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### Abstract

Although ample research has shown that decisions may cause regret and that the anticipation of regret may influence decision-making, this previous research was largely limited to hypothetical choices with student participants. The current research replicates and extends these findings for real life lottery participation decisions in non-student samples. Four studies are reported in which two lotteries in the Netherlands, the Postcode Lottery and the National State Lottery, were compared. The State Lottery is a traditional lottery in which one has to buy a ticket with a number printed on it. In the Postcode Lottery, one's postcode is the ticket number, and hence even if not participating one may still find out that one would have won had one played. As our research shows, this particular feedback that is present in the Postcode Lottery but absent in the State Lottery influences the level of anticipated post-decisional regret, and moderates the influence that anticipated regret has on lottery participation. Study 1, 100 street interviews, confirmed our expectations that the Postcode Lottery may elicit regret. Study 2 found under controlled conditions, that people anticipate more regret over not playing when there is feedback about the neighbors winning a prize in the Postcode Lottery than in the State Lottery. However, when this feedback is absent they anticipate equal amounts of regret over not playing. Study 3 replicated these findings for regret, while showing that the two lotteries do not differ with respect to envy and jealousy, emotions that might also be invoked in this context. Study 4 validated that, as we predicted, anticipations of post-decisional regret influence decisions to play the Postcode lottery, but not the State Lottery. These findings demonstrate the external and discriminant validity of anticipated regret for decision-making, and indicate its pragmatic relevance. The implications or recent developments in regret research are discussed.

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Gambling is one of the purest forms of decision behavior as the monetary outcomes and the associated probabilities are central, and the choices can be readily modeled mathematically. In many other of life's decisions the probabilities of the different outcomes and the values placed on those outcomes are much more

ambiguous. To overcome this, normative decision theorists often model real-life decisions as if they were a gamble or a lottery. An often-heard criticism, however, is that normative theory reduces decision-making to gambling. As a consequence many features of the decision context are overlooked, and normative decision theory does not fare well in predicting real life decisions. Interestingly, however, it also does not predict gambling behavior very well (e.g., Gilovich, 1983; Shapira & Venezia, 1992; Wagenaar, 1988).

Because of this limited predictive value, researchers have searched for other factors that may influence decision behavior and that may account for deviations from the normative model, one of them being emotion. The emotion that seems most relevant in the context of decision-making is that of regret (Bell, 1982; Loomes &

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Sugden, 1982). Of course, other emotions are relevant for decision-making as well, such as worry, fear, happiness, and elation. These emotions, however, may also occur in absence of a decision, since they are related to aspects of outcomes or to uncertainty. Regret is directly linked to the choice or decision at hand. Research has documented many instances in which regret may impact behavioral decision-making (for a review see, Zeelenberg, 1999). In this article we use recent knowledge about the psychology of regret, obtained in descriptive decision research, and return to the more traditional study of gambling decisions. In particular, we investigate the role of anticipated future regret in lottery participation decisions. Based on developments in regret research we expect regret to only exert an influence for lotteries that are designed in such a way that they have the potency to evoke severe regret. That is, we predict that the influence of regret on gambling decisions is conditional on specific lottery characteristics, rather than being uniform on lottery participation in general. Support for this prediction would not only attest to the consequences of regret aversion in real life decisions, but also point out specific conditions upon which regret aversion works. In addition, we predict that it is the anticipation of regret rather than other, related emotions in the context of lottery play, such as envy and jealousy, that accounts for the decision-making effects.

Hence the potential contribution of our present research is that it provides a “full-cycle” approach to the study of regret (Cialdini, 1980). Using a full-cycle approach may overcome some of the critique that decision research is mainly epiphenomenal and artificial. The full-cycle approach holds that one starts with natural observation, which provides the input for controlled experimentation. The outcomes of these can then be tested in real life, using again observation or field experimentation. This may of course result in further experimentation. In particular, because in real life other aspects of the decision situation, which often are not considered in the laboratory, play a role, and these aspects need to be identified and controlled for. This, in its turn, may stimulate new theorizing and deepens the original insights. Thus, real life generalization of principles that have been proven worthwhile in laboratory research is useful for gaining understanding of how people really make decisions, and for enriching decision-making theory.

Before we discuss this potential role of regret in lottery play, and before reporting on four empirical studies that test it, let us now turn to current insights in the psychology of regret.

## Regret

Regret is a negative, cognitively based emotion that we experience when realizing or imagining that our

present situation would have been better, had we acted differently. It is an unpleasant feeling, associated with self-blame, the wish to undo the regretted event and a strong tendency to kick oneself. The core element of regret is cognitive in the sense that in order to experience regret one needs to *compare* the current state of affairs with what it would have been had one decided differently. This comparative aspect is central in regret theory (Bell, 1982; Loomes & Sugden, 1982), a theory of decision-making under uncertainty that assumes that decision makers *anticipate* the experience of regret and take it into account when making decisions. According to regret theory, people can anticipate emotions such as regret, because they compare possible outcomes of a choice with what the outcomes would have been, had a different choice been made. The decision maker anticipates to experience regret when the foregone outcome would have been better and rejoicing when the foregone outcome would have been worse. Thus, the tendency to avoid negative post-decisional emotions such as regret and self-recrimination, and to strive for positive feelings and emotions such as rejoicing and elation, are assumed to be important determinants of individual decision-making.

When, for some reason, one cannot compare the outcome of the chosen alternative to that of rejected alternatives, regret is not likely to occur and hence not likely to be anticipated. As a consequence, resolution of both the chosen and the non-chosen alternatives became a central element of regret research, in line with Bell's (1983, p. 1165) proposal that the effect of expected feedback “is the predicted phenomenon on which experimentation should be concentrated.” That research has shown that manipulations of feedback information about the non-chosen alternatives influences the extent to which people experience regret or its positive counterpart (Ritov & Baron, 1995) or more general outcome satisfaction (Boles & Messick, 1995; Inman, Dyer, & Jia, 1997; Mellers, Schwartz, & Ritov, 1999). It also demonstrated that decision-makers do indeed make choices that shield them from possible regret-causing feedback on foregone alternatives (Guthrie, 1999; Josephs, Larrick, Steele, & Nisbett, 1992; Larrick & Boles, 1995; Ritov, 1996; Zeelenberg & Beattie, 1997; Zeelenberg, Beattie, Van der Pligt, & de Vries, 1996).

Clearly, on the basis of the available data, regret seems to be a force to be reckoned with in decision-making. One may still doubt, however, the relevance of regret for real-life decisions, as the studies so far have mostly adopted a scenario methodology in which student participants make hypothetical choices. In addition, to our knowledge, the few available studies on the role of regret in real-life decision-making (Inman & McAlister, 1994; Van Empelen, Kok, Jansen, & Hoebe, 2001), have left the question unanswered whether the influence of regret indeed depends on the expected

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