



BECOMING A DECISION LEADER

Taking the Confusion Out of Choosing

By SHEENA IYENGAR

Today we have more choices in any given domain of our lives than we have ever had before. And I'm not just talking about choosing your career, your spouse, where you want to live, how to schedule your entertainment, which jam you want to eat or which soda you want to drink. As I told the European Conference of the Association for Consumer Research held at IESE Business School this past summer, the process of choice has gotten way more complicated than that, to the extent that, besides the mundane choices, we now have more life-and-death choices to make, on a scale never seen before.

Not choosing is not an option: We live in a world where choice is thrust upon us as an obligation; indeed, it is hard to say no when choice is equated with the moral duty of being a free individual. As individuals and as leaders, we now have to confront choices that not many of us are prepared to make – decisions for which we have no script.

However, the proliferation of choice need not be dire news. I believe we can benefit from choice if we commit ourselves to some reeducation and training with regard to two important areas.

First, we have to change our own attitudes

MAKING DECISIONS: MORE THAN YOU THINK



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We must take steps to counteract the limits on our cognitive abilities, so that we obtain the most benefit from choice with the least effort – for ourselves as well as for the consumers and employees we serve.

toward choice, recognizing that it is not an unconditional good.

Then, we must take steps to counteract the limits on our cognitive abilities and resources, so that we obtain the most benefit from choice with the least effort – for ourselves as well as for the consumers and employees we serve.

This article – drawn from numerous research projects and my book on the subject, *The Art of Choosing* – will show you how.

Recognize the Limits of Choice

We all want choice and like having options. The word “choice” almost always carries a positive connotation; to say “I had little or no choice” is usually to apologize or explain one’s unfortunately limited predicament. We assume that if having choice is good, then having more must be better, right?

Not necessarily. My research has turned up a wide variety of instances when choice, for all its positive qualities, can also be confusing and overwhelming.

TOO MUCH OF A GOOD THING. How many times have you gone shopping – to find that perfect gift for a friend’s birthday, or a cell phone, or even something as mundane as a jar of jam –

only to find yourself paralyzed in the face of endless possibilities? Which is the “perfect” one? This one is good, but how do I know that there isn’t something better someplace else, and have I looked hard enough for it? We exhaust ourselves in the search, and something that should have been straightforward becomes a chore.

Psychological studies have consistently shown that it is very difficult to compare and contrast the attributes of more than seven different things, give or take a couple. A 1956 paper by George Miller on “The Magical Number Seven” first turned me on to the idea that there is a limit to the amount of information each one of us can cope with at any given time.

This is borne out by numerous other studies. For example, when people are shown shapes of various sizes and asked to number them in order from smallest to largest, their ratings are highly accurate up to seven; after that, they become increasingly likely to make errors.

The same holds true for a wide range of perceptual judgments, such as determining or distinguishing between the positions of points, the direction and curvature of lines, the hue and brightness of objects, the frequency and volume of tones, the location and strength of vibrations, and the intensity of smells and tastes. For each of the senses, most people can handle only five to nine items before they begin to consistently make errors in perception.

We also falter if we try to keep track of multiple objects or facts simultaneously. When 1 to 200 dots are flashed on a blank screen for a fraction of a second, and people are asked how many they’ve seen, they’re able to give correct answers for up to six dots or so. After that, they start estimating. And if we try to store more than seven simple units of information, like numbers or words, in short-term memory, pretty soon bits and pieces begin to crumble away.

When we choose, we have to notice all the

EXECUTIVE SUMMARY

Today we have to confront more choices than ever – decisions for which we have no script. This article is based on innovative research by the author on choice, which formed the basis of her award-winning book, *The Art of Choosing*. She suggests the steps to take to exercise choice wisely. We need to learn how to counteract the limits on our cognitive

abilities and resources, so that we obtain the most benefit from choice with the least effort – for ourselves as well as for the consumers and employees we serve. The goal is not to manipulate people but to design more helpful forms of choice. Ultimately, it requires becoming a more effective leader who exercises choice judiciously and responsibly.



■ More Is Less

From jam to retirement funds, sometimes choice is not all it's cracked up to be.

In the mid-1990s, I conducted a study at Draeger's, a San Francisco-area grocery store where, despite its mind-boggling array of products, I often found myself walking out empty-handed. To explore why, my research team and I set up a jam-tasting booth near the entrance. At regular intervals, we alternated between offering shoppers a large assortment of 24 jams and a small assortment of six jams to sample, and then observed as they proceeded to the jam aisle, where they could choose from among 348 varieties of jam on sale.

As expected, 60 percent of the incoming shoppers stopped when 24 jams were displayed, but only 40 percent stopped when six jams were displayed. Clearly, people found the larger choice-set more "showstopping."

However, when these same shoppers went to the jam aisle to pick up a jar, they had a much easier time deciding what to purchase after seeing six jams instead of 24. Of those who stopped for the large assortment, only 3 percent ended up buying a jar, whereas 30 percent bought jam after stopping for the small assortment.

Although part of the fun of going to Draeger's was the sheer entertainment of seeing so much choice on display, the management realized that for the business to thrive, it required more than just spectators: A significant portion of the people walking through the doors had to be turned into paying customers, rather than having choice for choice's sake.

We saw this again in 2001 in another study

at the Vanguard Group to determine why so few of the 900,000 employees were participating in their company's retirement savings plans. We found that average participation rates were influenced by choice. When plans offered only two funds, 75 percent of the relevant employees participated; when plans offered 59 funds, the percentage of participants fell to 61 percent.

Consider the consequences of this: At the time of the study, a 25-year-old median salary earner who chose to postpone participating in the plan for just one year would have ended up with \$18,540 less in retirement savings at age 60 than an identical peer who chose to participate immediately. Yet many employees, overcome by too much choice, kept putting off the decision or just skipped it.

Moreover, the employees who participated made worse investment decisions, on average, when they chose from plans with more options. For every 10 additional funds offered in a plan, employees allocated 3.28 percent less of their contributions to equity funds, which generally outperform bonds and money markets in long-term investments. They were also 2.87 percent more likely to avoid allocating any of their contributions to equities at all. Even young employees in their 20s, who should have been allocating 80-90 percent of their contributions to equities based on the accepted wisdom of the day, became more likely to avoid equities altogether as the number of options rose, undermining their long-term financial well-being.

options, compare them to figure out the differences, remember our assessments, and then use these assessments to assign rankings. Due to our limitations, each step becomes more and more overwhelming as the options increase.

This psychological truth has led me to undertake a variety of well-known, oft-quoted studies (see **More Is Less**). For some reason,

these studies are frequently received like a juicy bit of gossip or a scandal. The idea that more choice leads to less satisfaction or gain somehow strikes people as either counterintuitive (it sounds wrong but feels right) or blasphemous (to suggest that choice isn't a universal good affronts some people as being anti-freedom or communist).