

Implications of Status Quo Bias on Individuals, Businesses and Governments

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Abstract. This paper examines the usage of status quo bias (SQB) in a range of situations, as well as its impact and implications in everyday life. In this study, SQB was discovered to be strongly linked to individual rights. The impact of SQB on individual, business, and government decision-making was explored using two previously known applications and one observational study to determine the relative benefits and drawbacks of employing this heuristic. The purpose of this research is to determine and critically discuss the suitability of current SQB use, and to suggest appropriate solutions that can be implemented using SQB in particular situations.

Keywords: Behavioral economics; status quo bias; heuristics.

1. Introduction

This research examines the relationship between status quo bias and human activity. It explores the possibility that this psychological theory can be used to achieve a type of manipulation. Individuals, corporations, and governments must be aware of the impact of Status Quo Bias (SQB) and use it in a responsible and less destructive manner.

In the first application, 70 web platforms were observed and recorded to analyse the findings of an observational study to determine those websites & applications' reliability in correctly applying SQB. To put it in another way, 70 web platforms were analysed to see if the usage of SQB on online platforms has facilitated an over-exploration of customers' personal information in current days. The relative solutions proposed in the application were conceived from the web users' perspective, although the governments would primarily be the actors to implement these solutions. This is because SQB is an underlying heuristic, and only governments and regulators can exert extensive control over its application.

The second application explored the impact of SQB in business based on Iyenger and Leppers' original experiment [1], in which choice overload was also a factor. The independent variable of the number of choices presented to consumers affected their decision making to a considerable extent in the experiment; when choice overload appeared, SQB influenced consumers more, making them more inclined to stick with the default/original option. This experiment was examined from the business perspective, and solutions were presented for various types of businesses and their various objectives.

In the third experiment, the potential impact of SQB on society was depicted in a bigger picture through using a previous field experiment conducted by Eric Johnson and Dan Goldstein [2] around the topic of organ donors. In real life, SQB may appear in an opt-in/opt-out situation, where residents are asked to fill out a form indicating whether they wish to participate in organ donation or not. In this scenario, the application looked into how different countries around the world use presumed consent and explicit consent rules, and how these policies leverage SQB to achieve a different level of efficiency in promoting organ donation. The solutions were developed from a government's perspective on the implications, benefits, and drawbacks of each policy that contained status quo bias. In addition to the solutions, there are suggestions on how governments might improve their efficiency on the topic of organ donors through SQB while minimising the negative consequences.

The sections that follow provide three applications that will offer viewers with complete and extensive information about the SQB in the studies stated earlier.

2. Definition and Applications

2.1. Status Quo Bias

The inclination or preference that people have for staying in the existing condition or sticking to the default or previous decision is known as status quo bias. Most real decisions, unlike those of economics texts, have a status quo alternative [3]. This is because some of the individual gainers and losers from reform cannot be identified beforehand [4]. In other words, if the perceived benefits of a new or alternative solution don't outweigh the perceived costs of changing their status quo, people tend to take no action to change [5]. For example, when a consumer comes into a store with the default of not purchasing and then sees something he or she likes, if the willingness to purchase this product does not outweigh the cost of it or the time required to compare this product with another, the consumer tends to stick with the default of not purchasing. Choice overload, on the other hand, may amplify the effect of status quo bias, making consumers more likely to stick with their initial selection. This case is further discussed in application 2 later in the paper.

2.2. Applications

2.2.1. Application I. Observational Study

After conducting an observational study of 70 websites and Apps to investigate the significance of status quo in people's lives, it was revealed that this mental activity and preference have a substantial impact on people's willingness and awareness to give away their personal information.

By possessing information about users' personal details and buying or leisure habits, businesses can generate profits. Businesses (websites and applications) can sell customers' information to adjacent industries' organisations that are interested in customers' preferences and activities. For example, one's action of searching for 'surfing' on certain encyclopaedia or life utility websites would reveal one's interest in sports, specifically surfing. Then there's a risk that this encyclopaedia owner or the life utility websites would sell this information to surf clothing firms and companies that offer surfing courses.

Meanwhile, it is also possible that these surfing-related organisations would pay applications that people normally use to have their advertisements appear on 'potential consumers' screen, in order to encourage consumers to sign up or purchase their product. One's information can also be used by other businesses in the horizontal production line in the future. As a result, organisations who use your cookies can profit from your data without getting involved in any competition; having a default boosts their chances of collecting your data quickly.

The observational study evaluated five categories of websites that functioned for diverse common uses in people's life. This is to ensure the representativeness of the sample and to minimise bias. These 5 categories of websites are Academic-related websites, Encyclopaedia-related websites, Shopping-related websites, Life-Use-related websites, and Entertainment-related websites. However, due to variables such as a lack of time, resource repetition, and the varying complexity of each sector, the chosen number of websites in each category varied across the sample.

Among the 70 websites and apps, only 11 of them did not provide a default to viewers, allowing viewers to choose whether or not their data will be shared (see Fig. 1). This finding indicates that the use of default has been widely favoured by businesses and has aided them effectively in obtaining viewers' data.

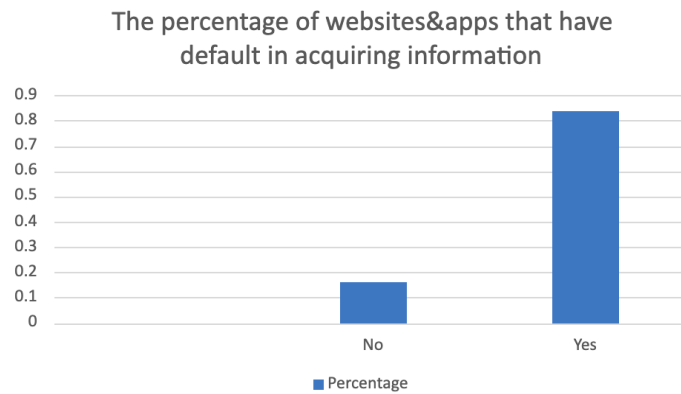


Fig 1. The percentage of websites & apps that have default in acquiring information.

The businesses’ reluctance to give customers a choice of consent can be explained by the status quo bias theory. When individuals don't want the app or website to take their information, they must click on the un-selected button, and according to the status quo bias theory, people are more prone to avoid making decisions that entail a lengthy process. Businesses will have far more control over what consumers do as a result of this.

Another finding from the study was that only 12% of websites and apps did not display their cookie settings to visitors (see Fig. 2). This could be a sign of excellent regulation, but could also be a worrisome indicator of how much those businesses may already be using very personal data of customers.

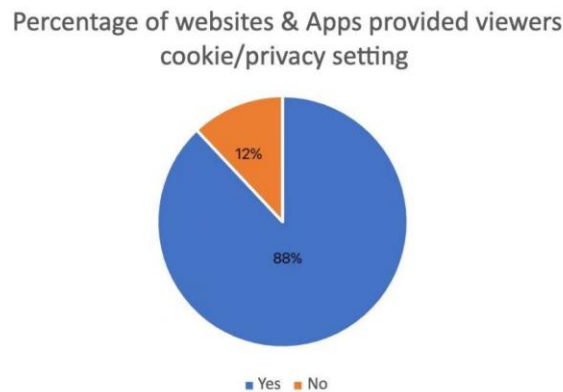


Fig 2. Percentage of websites & apps provided viewers with cookie/privacy setting.

According to Australian legislation, information that can be used to identify a person is considered personal information, necessitating the display of a cookie consent notice on the app and website (OAIC). Information that does not identify a person, on the other hand, is not treated as personal information and hence does not require consent. This explains why some websites allow viewers to set cookie preferences while others do not. Further investigation reveals that different countries have varied cookie-control legislation.

For example, companies handling data with sensitivity of or above the level of “important data” are required to designate an officer or a management team to be responsible for the security of data and to submit regular risk assessments to the relevant PRC authorities [6]. Different levels of commercial punishment may apply if the business has over-explored, or incorrectly used consumer’s information. In the United States, the data collected by the vast majority of products people use every day isn't regulated [7].

Besides the display of cookie settings, 40 percent of the websites and Apps were given viewers only one option when it comes to asking for consent, implying that viewers do not have control over their information if they choose to utilise these websites or Apps. The reason for this is that according to status quo bias assertions, giving people additional options may lead them to stick with their default of "not sharing information." Therefore, Businesses lowered the likelihood of consumers

disapproving by not showing them the option, therefore lowering their sensation of presence of status quo bias.

Furthermore, when it came to subscriptions, 80 percent of the websites and apps provided clients with several options (shown in Fig. 3). This is because most visitors who go on a subscription page expect to buy something, therefore the more options they provide, the more likely customers will choose the business's favoured deal. However, based on the observation from status quo bias theory, 75% of businesses provided 3 or less options.

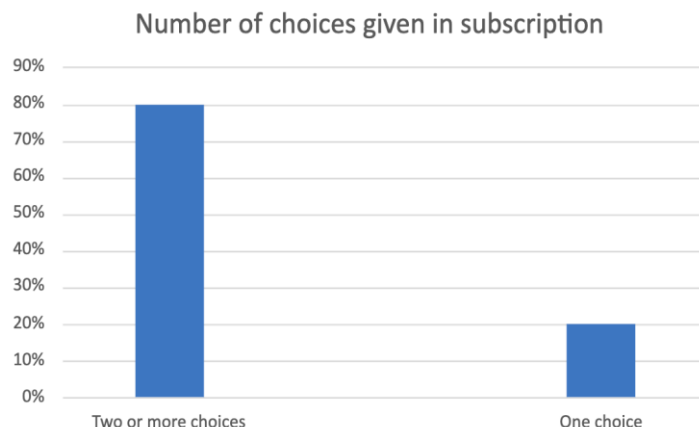


Fig 3. Number of choices given in subscription.

In general, websites and applications require some data from consumers to function. This is true in many circumstances, such as the requirement of microphone authorisation, permission to transmit alerts, or even the usage of cameras in many social media-related apps. While this may seem ordinary, it has become a badly affected region in a personal information explosion. In this scenario, utilising status quo bias to encourage customers to accept "cookies" is understandable because access to internet resources has grown increasingly accessible in recent years, and people favour websites that deliver data in the easiest way possible. The 'trick' of status quo bias, however, can also lead to the theft of personal information from numerous viewers. If corporations simply add such requirements to their mandatory demands to operate the website and utilise status quo bias to secure viewers' agreement, extra and superfluous information may be taken away in their interest. Such situations of 'stealing' information are potentially detrimental to users.

To ensure customers' rights, regulators or governments can use status quo bias-related strategies and thinking from the perspective of individuals. It is possible to limit the usage of status quo bias. To begin with, according to the study, 12 percent of firms provide no options for viewers when it comes to exploiting their information. Mandating 'Check privacy setting' as the default is one method to eradicate inequality and ensure equality between companies and customers. Secondly, a basic 'defaults' layout can be applied to businesses. To do this, the exact sorts of information that a business will consume should be summarised in representative forms, after which the default options 'your information xxx can be used by this website & app if you accept' may display. In addition, based on the degree of information companies want from viewers, the government can categorise firms into different levels of hazard. Options with additional negation, such as 'your information xxx could not be used by this website & app if you do not grant permission,' may be necessary to be set as default in some serious instances, such as when a corporation may gain a user's bank details. This can serve as a reminder to clients about which aspects of their data are most likely to be recorded by the app. Last but not least, greater taxes on online enterprises, similar to cigarette and alcohol businesses, may be imposed.

2.2.2. Application II. Jam Experiment

In Iyengar and Leppers' original field experiment using the model of status quo bias with the between-subjects design, respondents were offered varied numbers of jam choices in two days in a supermarket. Shoppers encountered one of the two displays. On the table were either 6 (limited-

choice condition) or 24 (extensive-choice condition) different jams. On each of the two Saturdays, the displays were rotated hourly; the hours of the displays were counterbalanced across days to minimise any day or time-of-day effects [1].

The results of this experiment show that only 242 of the 386 consumers who entered the store with a wide range of options entered the exhibit, whereas 260 of the 368 customers who entered the store with limited options entered the display [1]. This conclusion can be explained as more people are likely to be enticed by a large number of options, yet the proportion of people willing to purchase is higher when only a few options are available. The status quo in this experiment further conveys its importance in consumer decision-making based on one of the significant variables in the status quo that customers pay little attention to [8].

Status quo bias (the tendency to choose the status quo alternative) is more prevalent in larger choice sets [9]. Customers who enter into the store with the default option of "not purchasing a jam" are more likely to continue with that decision when more options are presented, because their attention can only be paid to a small number of alternatives. People, on the other hand, are more willing to buy when there are fewer options and the choices are less confusing. From Iyengar and Leppers' experiment, businesses can learn how status quo can be instrumental in consumer decisions. When resources are available, many firms will provide as many options as possible to ensure that the majority of customers can find what they are looking for in-store. This type of behaviour, on the other hand, creates a sense of choice overload and magnifies the influence of status quo bias, implying a significant risk of losing prospective clients without the option of purchase.

While this heuristic will be applicable to other consumer choices, businesses can leverage the status quo to help them achieve their goals. From a commercial standpoint (business point of view), status quo bias can be used to influence consumer decisions to increase profit. By doing so, corporations might describe their aims as recruiting new customers, maintaining brand loyalty, and selling as many high-margin products as feasible. The typical goal of businesses when dealing with new clients that have a default of not purchasing or defaulting to another brand is to entice them to purchase their first items. Two solutions for two different sorts of businesses can be employed based on the status quo bias notion. To begin with, online firms might ask for permission to distribute consumer information by email. Instead of sending commercials, telling stories about the brand can be more appealing. Once a client is familiar with the brand, the business will be the first to come to mind when the customer has a comparable need. Salespeople can set joining membership as the default for firms who own a lot of stores and mostly sell their items offline, enhancing the effectiveness of status quo bias. Once clients have signed up, the company might offer them a discount on their first order. This time, their default setting may be even less appealing in terms of pricing.

Secondly, once new customers have been acquired, the status quo can be used to maintain brand loyalty. Most businesses also have to deal with clients who have defaulted on their products after the first or second purchase. This type of buyer preferred the well-known, quick, and simple alternative. In order to override the precarious purchasing decision from resistance to change, the company can have its website recall the last similar purchase made by the customer when they open the website, and can prompt them with a pop-up window asking if they want to buy it again. In this approach, the company provides customers with the simplest and most convenient purchasing choice. In addition, when it comes to long-term purchases, the company can give discounts on existing costumes.

Last but not least, firms seek to sell more high-margin products in order to maximise their profits. Using status quo bias, a viable solution is for firms to constantly recommend and place the high margin product as a default for customers. For example, a supermarket might want to sell a product under its own brand that requires fewer supply chain operations. When a consumer approaches a salesperson to inquire about a specific product, the salesperson can always suggest the supermarket's goods first. Because the customer lacks a clear preference, sales are more likely to motivate them. Also, when a product is unique or extremely complex, it has a level of impact on consumer decision-making because the product is difficult to compare to alternatives, resulting in fewer options.

To summarise, individual psychological movements can have a significant impact on corporate operations, while corporations can 'push' people to help with sales without forcing them to do so. As a result, the inextricable link between marketing and the status quo cannot be overlooked.

2.2.3. Application III. Organ Donors

Many countries maintain the status quo while making critical decisions that could affect tens of thousands of people. Organ donation is a decision that both governments and individuals must carefully consider, and the use of the status quo based on people's consent plays a vital role in various countries throughout the world. Presumed consent is set to be an organ donor by default, thus they must take some active measures to demonstrate that they do not want to be donors. Explicit permission, on the other hand, creates a default of not being an organ donor, requiring people to take steps to demonstrate their willingness to donate.

There was also a third option—neutral, which meant there was no default. In practise, countries with an opt-out condition, such as Austria, France, and Belgium, have an effective consent rate of over 90%, whereas countries with explicit consent, such as Denmark, Germany, or the United Kingdom, have an average effective consent rate of 15.2 percent (cultural factors and trends may be a strong influencer on people's choices in this example, but this is less precise).

Eric Johnson and Dan Goldstein used an online poll to further investigate the influence SQB has on people's decisions. Participants were asked to click on questions about whether or not they wanted to be organ donors. Only 42% of participants in this within-subjects trial chose to be donors. In the opting-out case, however, 82 percent of respondents in the 'presumed consent' poll agreed to be donors compared to 79 percent in the neutral survey [2]. This demonstrated that, even if people consider themselves to be donors (in the neutral condition), they may withdraw because there is little value to them in deviating from the original default. However, this research is based on a field experiment rather than a real-life situation in which people were obliged to donate their organs. As a result, in real-life scenarios where the intricacy of switching options and people's attitudes towards this topic alter, the results may be quite different.

From the government's perspective, status quo bias can be easily exploited in circumstances such as organ donation, where a large number of donors is desired. Presumed consent will be an effective technique to encourage people to engage if more donors are needed in society. Furthermore, the amount of processes that users must go through in order to change the default to their own option can be varied. Going to a local office and filling out a form, for example, is one of the stages that can be used in the process of modifying the initial default.

In extreme cases, a policy known as routine removal can be implemented. Routine Removal indicates that the state has the rights to the body parts of people who are dead or in certain hopeless situations, and it can remove their organs without their permission [10].

Using regulations to regulate people, on the other hand, may cause a sense of pressure since they sensed the government's suggestions. Instead, the government can provide welfare or financial aid to encourage and stimulate people to donate their organs.

Many factors and consequences are addressed in relation to the solution proposed in the previous paragraph in order to ensure that the impacts are balanced. The rights of society versus the rights of individuals is one of the primary conflicts in this case. Everyone is treated with the most respect and individual rights under the neutral state. All of the other alternatives, on the other hand, require people who do not have the default preference to opt-out. Individuals should be provided choices in a balanced society, because systematic elimination largely harms the relationship between government and residents and causes citizens to suffer from a level of oppression. As a result, when the government makes regulations, the cost of changing choices should be counted and taken into account when deciding whether it is worth sacrificing freedom of choice or whether the type of politics practised in this country (communism, democracy, etc.) is eligible for a specific use of SQB.

3. Conclusion

This research paper expands previous studies and observations to investigate the impact that status quo bias has when people participate in various decision-making processes. According to recent evidence, SQB can endanger customers by businesses deviously developing the process of obtaining consumers' personal information. On the contrary, correct application of SQB allows a large number of people to make effective decisions in the most natural and simple way possible. SQB, as the three applications above indicated, also constitutes an oblique recommendation from a system's inventor; as a result, it can be interpreted as a threat to privacy rights. Individuals and organisations should exercise extreme caution when making choices to avoid 'manipulation' caused by the misuse of SQB.

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I, Zhuoyan (Anasta) Jiang, hereby declare that the work presented in this dissertation is my own original work. Where information has been derived from other sources, I confirm that this has been clearly and fully identified and acknowledged.

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