Using social proof to help clients make better decisions

Michael Kitces | Pinnacle Advisory Group | 25 February 2014

In uncertain situations, we look for social cues about what to do based on what everyone else is doing. This kind of social proof can be highly effective in helping us to navigate what to do in the absence of proper information. In fact, sometimes the effects of social proof can be remarkably powerful, causing the herd to do something dramatic "because everyone else is doing it too" – even if no one in the crowd actually knows why they're doing it!

Unfortunately, though, the principles of social proof are often used unintentionally and, in fact, can be unwittingly applied to encourage negative behavior. There's a risk that explaining the commonality of a bad behavior will actually communicate to people that the behavior is socially condoned and that it's ok to do it.

On the plus side, though, financial advisers are often in a good position to invoke the positive effects of social proof on behalf of their clients. If the "normal" behavior is bad, we can establish positive role models of what the normal behavior of a "good" outcome would be instead. On the other hand, applying social proof with clients also requires us to let go of the idea that absolutely every client scenario is completely unique, and instead try to identify ways that a client's situation are similar to others, to provide a positive social proof context. The bottom line is that since our brains are hard-wired to create these kinds of comparisons, just ignoring the phenomenon is not an option!

1. UNDERSTANDING SOCIAL PROOF

The idea of social proof is that, in uncertain situations where we're not certain what to do, we have a strong tendency to just go along with the herd. In essence, we assume that we must be missing out on some crucial piece of information, and that everyone else is in the know, and that therefore it's a good (or at least, safe) idea to do what everyone else is doing. Simply put, we accept the idea that if everyone else is doing it, that must be "social proof" that it's the right thing to do.

A rather astonishing example of this phenomenon is discussed in Robert Cialdini's "Influence: Science and Practice" (a book I highly recommend for practitioners) which covers a wide range of research on what influences our behavior:

> In an incident in Singapore in the 1980s, the customers of a local bank began withdrawing their money in a frenzy one day, despite the fact there was no notable news and no apparent reason. As it

> turned out, though, the cause was surprisingly simple – an unexpected bus strike had created an abnormally large crowd waiting at the bus stop in front of the bank that day. Local bank customers passing by mistook the large bus-waiting crowd for bank customers waiting to make a withdrawal, and consequently got in line themselves to get their money out, assuming that if there was such a huge line in front of the bank, it must be in trouble. Although the waiting bus passengers were simply standing nearby coincidentally, the bank was forced to close its doors that morning just to prevent an actual bank run.

And, the social proof phenomenon is not unique in this regard. It's an underlying root cause for a great deal of herd-like behavior, from teenagers who make irresponsible decisions because their friends are doing it ("If your friends jumped off a bridge, would you do that too!?"), to investors who substitute following the crowd for real due diligence ("I don't know why everyone else is buying gold, but if they're doing it, I guess I should be too!").

2. INFLUENCING BAD BEHAVIOR WITH SOCIAL PROOF

What's notable, though, is that sometimes we apply social proof principles to influence behavior change, and do so without realising it. For instance, a famous Cialdini study looked at a particular problem in the Arizona Petrified Forest National Park, which had a significant problem with visitors taking bits of petrified wood as a souvenir. The park had a "warning" sign to address this near the entrance to the park, which stated:

> "Your heritage is being vandalised every day by theft losses of petrified wood of 14 tons a year, mostly a small piece at a time."

While the purpose of the message was to discourage theft by highlighting the vandalism, a subtle underlying message was being conveyed – it's common practice for visitors to take small pieces of wood as souvenirs. In other words, even while the sign was decrying the problem of wood theft as vandalism, it was implicitly condoning new thefts by making the point that, notwithstanding what the sign states, it's apparently common practice to do so.

By contrast, Cialdini found that when the sign describes what people should do (an injunctive norm), rather than what they are doing (a descriptive norm), it's much more effective in changing the desired behavior. For instance, the sign language below was found to be far more effective at actually reducing theft:

> "Please don't remove the petrified wood from the Park, in order to preserve the natural state of the Petrified Forest."

Notably, this second version does not include a descriptive norm implying that everyone else is already doing the inappropriate behavior; instead, it applies an injunctive norm, making the point that the behavior is bad and shouldn't be done. Alternatively, another version of the sign might have focused on the overwhelming number of people who enter the Petrified Forest and respect it without taking anything - communicating that the "norm" is to leave the forest in its pristine state, and implying that only rare outliers actually take anything with them.

3. USING SOCIAL PROOF IN FINANCIAL PLANNING

The principles of social proof apply frequently in giving financial advice as well - although, as with the Arizona National Park, we often fail to recognise the scenarios when they occur, and the kind of behavior that is implied or condoned in the message.

For instance, consider the litany of research indicating that baby boomers are ill prepared for retirement. While financial advisers lament the dramatic retirement shortfalls, consumers may perceive a very different message - "apparently most other people haven't figured out how to save much, so I'm not going to either" or perhaps even worse, "hey if I have $50,000 of retirement savings, I must be doing great!"

In other words, statistics that report widespread shortfalls for retirement run a fine line between showing the depth of a retirement crisis, and informing people that having a shortfall is actually a normal behavior (implying that it doesn't need to be corrected, since apparently no one else is correcting their situation, either).

In turn, this suggests that an effective application of social proof to motivate clients should actually steer away from showing them how having a severe shortfall is the norm. If the research - and the media that reported on it - focused instead on statistics like "the average successful retiree had an account balance of $750,000 at retirement" now a prospective retiree with only $50,000 realises what a shortfall it really is. That is, if we're going to explain a "norm" about the behavior of savers that embeds an implication of social proof, we should be using injunctive norms that show what is successful, not descriptive norms that describe the commonality of failure.

The same is equally true for statistics and social proof about the low national savings rate, the extent to which most people are underinsured, etc. Alternatively, if an undesirable behavior like poor savings habits must be described, the focus should not be on how common it is, but instead invoke and injunctive norm to imply how negative/adverse the behavior is (and if it really is rare or exceptional and not normal, to say so).

For some advisers, the problem is not that we use bad behaviors as a demonstration of social proof, but that we avoid using social proof at all. In a world where financial advice is often emphasised as being about the customised, individual needs of the client, many advisers shy away from providing recommendations or guidance based on what other clients do. Yet from the client's perspective, that may be exactly what they need to hear; saying "what most of our other clients do is..." can be an excellent way to apply social proof principles to help guide clients down their own path. Especially since, if we don't help show clients what is "normal" or "right" they may rely on a poor role model for their own social proof, such as trying to "keep up with the Joneses" instead. In other words, not playing a role in social proof for our clients doesn't mean that they won't still be using it – just that we won't have any influence on whether they're using "good" norms or "bad" ones!

The bottom line, though, is simply this – social proof is a reality of how we think, as the research has now well established. Whether desirable or not, clients will constantly be drawing on the news media, what they see, and other information around them to come to conclusions about whether they are doing "the right thing" or not compared to their peers. Which means it's time that we became more cognisant of what messages we may be unintentionally communicating that could be adversely impacting client behavior – and, ideally, refocus on setting better "social proof" role models that clients can actually aspire towards!

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