Jakob Neumann

Nudging as a managerial method

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University of South Bohemia in České Budějovice
Faculty of Economics
Department of Regional Management

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Abstract

The aim of this thesis is to identify the potentials of nudging as a managerial method. The focus is on employees who have no basic apprenticeship in the area in which they operate. The work consists of a theoretical and a practical part.

The theoretical part establishes a common understanding of central terms and creates a uniform basis as well as connecting points. Some forms of nudging, which come into question for the purpose of leadership, are presented. The following practical part tries to combine the insights described in the first part and illustrate them with some examples.

Key words: **Nudging, libertarian paternalism, modern management method, leadership of employees**

People tend to make decisions that are not in their best interest. Not through self-sabotage, but through the functioning of our brain. Nudging is an innovative concept that tries to get people to make more sustainable decisions. Richard Thaler and Cass Sunstein published a book in 2009 that summarizes their years of research. This book, which is not a scientific work in itself but is based on their scientific findings, has become a bestseller. Not only science has recognized the potential of libertarian paternalism, some governments are also exploring the possibilities it offers. Most scientific papers therefore examine nudging from the state's side. A few of them focus on nudging in the employer-employee relationship, but most on academic workers. This paper attempts to extend the concept of nudging to workers who are less educated.

During my studies I did several jobs where I had colleagues which had no education in the field they work. I spent my semester holidays on construction sides, in the gastronomy, in a theme park and others. At all these stations I saw the combination of a less educated workforce and a manager who tends to the top-down management style. At any time, I asked myself if there's no better way to lead this kind of staff. By chance I became familiar with the idea of nudging and I thought about how to implement this concept in such an environment.

The constant professionalisation and development of management methods often pose challenges for smaller companies, as they cannot keep up with this pace and do not professionalise themselves to the corresponding extent. At the same time, they compete for the same candidates as the big ones does. The candidates have expectations of their employer and their managers. If these requirements are not met, they look for another employer. The current labour market is very job-seeker-friendly: the unemployment rate is extremely low. Employers, on the other hand, have difficulties finding suitable employees, especially as the acquisition is cost-intensive.

Nudging is an innovative concept that raises some questions that need to be addressed to the public. Both supporters and opponents of this idea have arguments that need to be heard and considered against each other.

In order to assess the opportunities and risks involved in implementing such a concept, a uniform understanding of the fundamentals is essential. This objective is pursued in the

chapter *Theoretical Foundations*. What is regarded as a normal employment biography has changed fundamentally in recent years and decades. The choice of an employer is no longer definitive, but merely temporary. This change has also been accompanied by changes in employee management and organisation. The style of top-down management practiced over many years is no longer appropriate in the most fields. Other styles that no longer focus on leadership authority have evolved.

Leadership

Structural leadership means influencing the behaviour of employees through measures accompanying their daily work. These include principles, rules and structures. These are aimed at intrinsic motivation. This type of drive, which is generated by the employee himself, is cost-effective and easily reproducible. Extrinsic motivation, on the other hand, requires an external impulse. Monetary incentives such as bonuses or rewards are such impulses. However, this motivation is not sustainable. In order to achieve the same effect again, the strength of the impulse must increase: the bonus, the reward must be higher than the one before.

There are various factors that affect intrinsic motivation. The Job Characteristics Model lists some of them:

- A variety of requirements

- the holistic character of a task

- the significance of the task

- the autonomy of action

- feedback.

Structural leadership marks the framework in which work usually takes place. There is also interactional leadership. This forces the direct shaping of interpersonal relationships between manager and employee. The manager intervenes in the behaviour of the employee. This type of leadership, however, requires a certain amount of trust between the parties involved. In addition, it is time-consuming and requires agreement on various underlying values. Executives and employees who cannot (or do not want to do so) are not suitable for this kind of leadership.

Other theories, on the other hand, rely on non-interference. In the substitution theory, the manager is mainly in the background. A well-known substitute is the company culture, which is known to influence the behaviour of employees. By applying values and norms, culture controls the behaviour of employees among each other and towards third parties such as customers and suppliers. There is no method that claims general validity and can always be applied. Every institution must find the right balance between the numerous theories.

Organisation

In addition to management concepts, the organisation has also changed in recent times. The organization has a great impact on success. It also must adapt constantly. Both to changed framework conditions such as the labour market and the order situation as well as to internal changes, which are particularly pronounced in young and/or growing companies. The organisation tries to reduce the direct management.

Collective memory is a valuable resource for learning processes. It stores previous episodes and thus helps to assess new situations. The disadvantage is that it is bound in the employees. If a colleague leaves the company, he takes the perception of his part of the collective memory with him, which is then no longer available to the remaining colleagues. New employees also do not have easy access to this collective memory. A documentation could facilitate this access, so that the memory can grow constantly, and the staff can learn also from far past successes and failures.

A so-called psychological contract exists between employees and employers. This contract is not written down anywhere and contains also no rights and obligations, which can be claimed. Nevertheless, it has a binding effect, which exists however only in the heads of the involved ones. If rights or obligations under the contract are violated, the employee often reacts by withdrawing from the contract: This can result in service according to regulations or internal termination. The breach of the contract can be provoked by both the employee and the employer.

Organization and success are closely related. Although the connection is not necessarily causal (good organization equals great success), a tendency can be recognized.

Libertarian Paternalism

Many people tend to behave in a way that can be described as being immature. They use their minds too little. The aim of the Enlightenment was to make people more mature, to motivate them to use their minds. Despite over two hundred years of Enlightenment, this goal does not yet seem to have been achieved. People make poorly thought-out decisions based on incomplete information, distorted by misconceptions or by emotions. Paternalism tries to limit the negative effects of these inadequate assessments of the facts by curtailing the freedom of the subjects. The ideology of paternalism focuses on people's well-being, trying to protect them from themselves. The paternalistic idea is reflected in the legislation. As a rule, the protégés have no way of avoiding paternalistic intervention. This restriction of freedom, which does not discriminate between individuals, therefore regularly provokes criticism.

The idea of nudging takes this criticism into account. In nudging, interventions are also designed that are capable of limiting the freedom of the individual. However, the idea is that these interventions should be designed in such a way that they can be circumvented easily.

Nudging

Most of the dozens of decisions made every day are not particularly advantageous for the decision maker. From an objective point of view, there would often be a cleverer option. The Israeli-American scientist and author Daniel Kahneman has researched this topic for a long time. In 2011, he published a book (Thinking, Fast and Slow) summarizing the results of his long research career. The reason for biased decisions lies in the way the human brain functions. It works with two different systems that perform different tasks and thus complement each other. One system, called System 1 by Kahneman, is responsible for fast thinking. He compares it with an autopilot, which constantly perceives and evaluates impressions from the environment independently of consciousness. It cannot be switched off and is susceptible to fallacies. System 2, on the other hand, takes over the logical, balancing thinking. It is what is commonly referred to as consciousness. System 2 is exhausting to use, but the results are more resilient and considered.

Sometimes it happens that System 1 takes on a System 2 task even though it is not designed for it. This is the point where heuristics often occur. Nudging works with such heuristics. Since these are omnipresent, nudging is suitable for use in a variety of different areas. For companies, the idea of nudging is particularly interesting because it is a very cost-effective way to influence decisions.

Heuristics and biases

There are numerous types of heuristics. Availability heuristics are particularly common. This leads to an overestimation of a category because cognitive access to it is easy. Prejudices are a known result of availability heuristics. The representativity heuristic is a distortion of judgement that works with stereotypes. We think we know what something has to be like, and we ignore statistical fundamentals. In anchor heuristics, completely irrelevant values shift the judgement towards the anchor for a decision. The preference of the current situation over an unknown, but objectively better option describes the tendency towards the status quo. In framing, a fact is embedded in a framework that limits the horizon of interpretation. If, against better knowledge, a wrong decision is made because a majority is also wrong, this is referred to as group pressure.

There are a variety of different forms of nudging. So, the nudger has a choice that contributes decisively to the success or failure of the nudge. However, some basic questions must be answered before designing the nudge.

Information nudging

Everywhere and incessantly people are exposed to information. Information that transports a fact is neutral. Thus, they are suitable to transport values and interpretation suggestions according to the interests of the information provider. This leads to a gap between issuers and principles of information. Advertising is the most striking example of the systematic provision of incomplete and suggestive information. Nudging with information means that only the content necessary to find the decision that is in the nudger's mind is made available. A supposedly bad judgement becomes a desirable decision in the ideal case by means of a heuristic (incomplete information).

In general, the provision of information is tantalising. More information is better than less for an informed decision. However, nudging means making a preselection, which always

causes criticism. In the relation employer and employee this criticism is unjustified, since the manager intervenes anyway steering into the behaviour of their co-workers. Also, a supervising instance is not necessary in contrast to the national Nudging.

Information nudging can be seen as both situational and structural leadership. Information facilitates the placement of certain processes in a superordinate structure. They also influence the company culture. This in turn has a great influence on the behaviour of employees. Managers are central emitters of information and thus important formers and creators of culture. Information nudging in combination with framing results in an effective setting.

Default nudging

Default nudging starts where one of several options has to be selected. The default is what happens when the user does not make any active choice. Setting a default opens possibility for the nudger to influence the behaviour. The default should be designed so that the receiver of the nudge falls to the optimal setting if he does not make an active choice. Preferences are omnipresent in working life. However, it is not the well-being of the individual that is in the focus, but that of the company. The aim of such an intervention could be to increase quality, optimise operating costs or avoid damage.

The assumption is that assistants without appropriate training are not necessarily able to correctly evaluate the consequences of their actions for the company and therefore make disadvantageous decisions. Nudging through defaults does not correct the cause (lack of knowledge) but the symptoms (bad decisions). Once a decision has been made in favour of a standard, it will be carried out repetitively in the following. Therefore, it is important that the Nudge is well prepared. If the pre-setting itself is incorrect, this will result in a series of poor decisions. Defaults can be developed and designed by decision-makers together with experts to ensure a goal-oriented effect.

Norm nudging

For nearly every area of life there are norms that provide orientation and make life in a society possible in the first place. Even all-embracing phenomena such as our entire economic system are based on the norm that for instance a banknote has a value that is printed on it. Norms and conventions often only become visible and perceptible when they are

violated. Nevertheless, they generate a certain commitment in interpersonal dealings. In order to be able to develop their orienting effect, a convention must be known. The questions *What is normal? About what is community consensus?* must be answered.

If a norm is violated knowingly (taboo violation), this often results in disagreeable conditions for the person who violated the norm. While recommendations about desirable behaviour often lead to reactions of defiance, the influence of norms is more effective. In addition, conventions can be changed. A formerly common behaviour can cause irritations today, others have been de-tabooed in the course of time. This ability to change predestines conventions as nudges. However, norms are cumbersome, they take time to change. This slowness, however, later mutates into a desirable stability.

Conventions are capable of influencing the atmosphere and the working atmosphere, two central factors for employee satisfaction and motivation. Managers are also subject to the norms applicable in the company. However, their role model function (in both good and bad) enables them to act as multipliers and pass on desirable conventions.

Following Kahneman's two systems, Thaler and Sunstein work with Humans and Econs. While Econs tend to use System 2, Humans are more likely to use their System 1. They therefore often make predictably irrational decisions and are the first target group for nudges.

Two other forms of nudging that seem suitable for use in companies are Make it easy and Reminders. Make it easy is supposed to remove obstacles on the way to the best decision and explain that the best way is not the most difficult. Reminders, on the other hand, try to combat procrastination, inertia and the mutual playing off of various obligations.

Another suggestion is to use elements of gamification. In doing so, playful elements are added to a core performance, so that the fulfilment of one's own performance is easier. The requirement itself remains unchanged, but the result is achieved more often and more successfully. An example for this is the interactive speedometers at entrances and crossings. Drivers receive playful feedback in the form of a laughing or sad symbol depending on whether they are maintaining or exceeding the prescribed maximum speed.

The employers find themselves in a war for talents. Finding suitable employees is becoming increasingly difficult for them. And - as described - a decision in favour of an employer is usually no longer definitive. The search for suitable employees does not end by

finding the right one. Every employment relationship begins with the selection of people who could fit into the existing team - both professionally and personally.

Nudging as a managerial method

The social status that work has in the western hemisphere suits employers well: work is generally (also) perceived as meaningful. When two people get to know each other, one of the first questions is usually the one after the profession. In addition, persistent unemployment, if it exists without any justification, is stigmatised in most social groups. The meaningful component of work, together with social conventions, makes it easier for employers to find motivated workers.

Once you have made a choice for a new colleague, ideally you will have to familiarize him or her with the new job. There is no difference between academics, skilled workers and unskilled workers. A lack of induction leaves a bad impression of the company. The two-factor model by Frederick Herzberg can serve as an orientation for employers. The theory distinguishes hygiene factors on the one hand and motivation factors on the other. The hygiene factors must be obligatorily fulfilled, so that the employee can complete its tasks: proper tools or an adequate working environment for instance. If such factors are not fulfilled, this leads to the demotivation of the employee.

Motivational factors, on the other hand, are beneficial to motivation if they are fulfilled. Since their absence does not restrict the possibility of performing work, it is not demotivating if they remain unfulfilled.

The induction is also a good opportunity to give the new employee access to the medial documentation of collective memory, if it exists. In this way, the new colleague can combine what he is taught during the initial training period with what the team has already experienced before.

At this stage, nudging is most likely to take the form of norms. Due to a lack of experience, people in a new situation tend to orient themselves on how people behave in their surroundings. This is an ideal starting point for influencing the behaviour of the new employee by modifying conventions. Providing information on each and every background would tend to overburden the new employee rather than be helpful. Employees who are off-education and without the appropriate apprentice would not be able to properly

categorise the information anyway. Furthermore, there is no need to expect significant resistance to nudging, as the intervention can always be avoided.

Nudging can be applied in both interactive and systematic leadership. There are also forms that play a hybrid role and can be assigned to both leadership approaches. An example of this is nudging by providing information. As an interactive style of leadership, information can be provided in the form of feedback, whereas in structural management systemic context factors can be influenced by information.

Nudging in the interactive leadership

The following is an example of nudging in the form of feedback as part of the interactive leadership.

- Café in an inner-city location, high competitive pressure

- Guests are predominantly young people, many of them digital natives.

- Often use the visit to distinguish themselves in social media such as Instagram or Facebook

- Reviews on the rating portals are mixed: sometimes full of praise, sometimes destructive

- Service level is in fact not consistent, depending on the employee

- Very low unemployment, high fluctuation rate

- Manager upholds the motto of top-down management style

Feedback in such a case could result in an improvement of the service level. If the manager sees one of her employees, such as not welcoming the customers with the required friendliness, she could promptly take him aside, give him feedback and together with him consider an approach that would be more appropriate. The same applies to praise. A sovereign behaviour in a delicate situation should also be acknowledged with feedback in a timely manner.

Feedback is reactive, it follows an action that has already happened. If information is communicated preventively, this is more likely to be considered active nudging.

The second example is in outpatient care, where not only medically trained specialists but also people from other professions work. Dealing with patients requires a great degree of sensitivity and empathy.

- Older gentleman in need of nursing care receives help from an ambulant care service

- The man lives alone at home and tries to remain as autonomous as possible.

- The manager of the nursing service recognizes the needs of the patient

- She talks to the employee who will take care of this patient about his or her particularities and sensitivities.

- The employee is a cross-entry in this sector but has already gained experience.

In these two examples, interactive nudging could be used to improve the results of the work without putting too much strain on the employee. An overload of prohibitions and restrictions reduces the motivation to work rather than an improvement being reflected in the results.

In both cases, feedback and providing information, the premises of a nudge were fulfilled. In addition, all methods can be implemented cost-effectively and are therefore suitable for use in companies. However, interactive leadership requires a basis of trust. The participants should know each other and be able to work together in trust. This prerequisite was also fulfilled in the cases.

Nudging in structural leadership

The purpose of structural or systematic leadership is to influence the behaviour of employees through "rules, principles, symbols, instruments and organisational structures": The management of employees via corporate structure and systematics. In some areas, this type of leadership is more suitable than the interactive method.

The following example illustrates how nudging can ensure a uniform appearance by using norms.

- A hotel in the Prealps was founded more than 40 years ago.

- In the meantime, tourism in the region has become more professional and sophisticated.

- The demand for suitable workers is constantly on the rise, but there are hardly any more employees on site.

- The hotel has started - like its competitors - to recruit workers from abroad.

- Due to the rapid growth, the premises of proper processing were not always fulfilled.

- However, they have different views on the tasks involved.

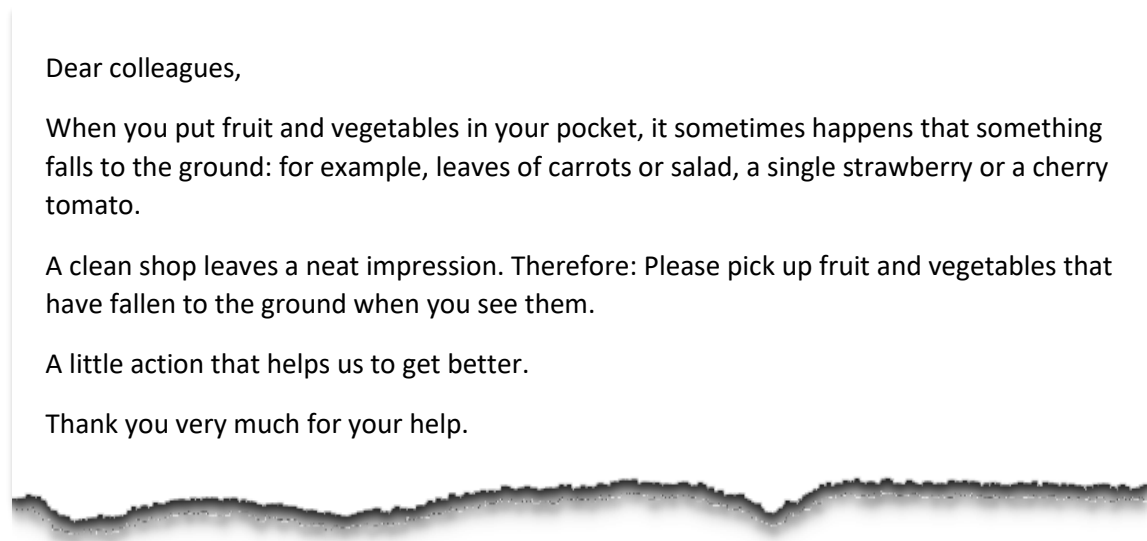- The result is an inconsistent appearance

Influencing conventions could help the hotel to get to grips with the problems of inconsistent appearance. The use of influencers would be an appropriate solution. Employees who have a strong identification with their employer could act as *change agents* for standards and conventions. In a dialogue between the decision-makers who define the goals and the influencers who check the practicability of these goals, conventions can be developed with which behaviour can be standardized.

Another potential field of application for nudges in systematic management are reminders. They are similar to feedback, but are not only suitable for use by individuals, but also by larger groups or even the entire staff. The example to illustrate this form of nudging takes place in a supermarket.

- Supermarket with a high-priced assortment in an urban environment

- High retail density, which means high competition

- The concept: appealing product display and regional and organically produced articles, as well as above-average customer service.

- Many employees without training in retail trade who take on fewer demanding tasks

- Recurring problems: unclean fruit and vegetable area, wrongly stored goods and lack of friendliness of checkout staff at peak times

- Rules of conduct have been clearly communicated and are also known but are sometimes not taken into account.

A possible nudge would be to draw employees' attention to the rules regularly but unobtrusively. For example, by means of flyers that are displayed in the pause room, postings

on the bulletin board or digital messages on mobile phones. If the premises of framing are applied, the reminders are a promising nudge. A possible nudge (notice) could look like this:

> Dear colleagues,
>
> When you put fruit and vegetables in your pocket, it sometimes happens that something falls to the ground: for example, leaves of carrots or salad, a single strawberry or a cherry tomato.
>
> A clean shop leaves a neat impression. Therefore: Please pick up fruit and vegetables that have fallen to the ground when you see them.
>
> A little action that helps us to get better.
>
> Thank you very much for your help.

A last example will show how default nudging can improve work results. Defaults can be used in almost all cases where a defined quantity is important. The dosage must be configured in such a way that it would be more effort for the employee to bypass the default than to apply it. In concrete terms, these could be markings in containers so that, for example, detergents and water are mixed in the right proportions. On the one hand, this can prevent overdosing, which could damage the objects to be cleaned, and on the other, it can prevent insufficient dosing, which would impair the effectiveness of the cleaning application.

Despite the numerous advantages, libertarian paternalism is in a state of tension. The criticism comes from two sides: traditional paternalists would prefer more far-reaching interventions that cannot be easily circumvented. For liberals, any intervention is too much. Nudging is therefore always a compromise.

When designing a nudge, transparency is one of the highest commandments. Governmental nudging is delicate and requires a great deal of sensitivity in order not to overshoot the mark and still be effective. In democracies, nudging is an option; other forms of regime have other ways of steering the behaviour of their citizens. However, democracies are obliged to account to the public. But managers are not exposed to this justification pressure. Entrepreneurial decisions are often explained to the workforce, sometimes even discussed. This voluntariness, however, does not constitute an obligation.

A Nudge consists of a motivation and an architecture. The motivation can even be known to the addressee without reducing the effects. The architecture, i.e. how the Nudge is designed, remains better hidden from the recipients. In literature, an example is often used to illustrate the idea of nudging. A cafeteria offers healthy and unhealthy snacks. The aim is to encourage customers to give preference to healthy alternatives. This is the motivation. The products are arranged in such a way that the customers tend to choose the healthy goods. That is the architecture.

Objective (motivation)	More customers should buy healthy snacks	Can be known by the costumers without reducing the effects.
architecture	Redesigning and positioning the goods in such a way that customers are more likely to buy healthy snacks.	Should stay hidden to stay effective.

If there were a sign at the entrance indicating that the unhealthy snacks are at the end of the shelf, the effect would fizzle out. It is the same as in advertising. Everybody knows the aim of the advertising company: selling more products or services, enhancing the reputation or to raise awareness. This knowledge alone does not prevent people from succumbing to the manipulative effects of advertising. The same applies to nudging.

Weak points of the concept

A central question that arises before any intervention in the decision-making sovereignty of another is that of legitimacy. Who should be allowed to influence the behaviour of other people? In a governmental context, this is a very delicate question that courts, philosophers, parliaments and the general public have to deal with. In the context of the private economy, however, this is easier to answer. The entire working day is flanked by commandments and prohibitions that restrict freedom anyway. They provide orientation and predictable results. It should be noted that overburdening the working day with restrictions on freedom can also result in excessive demands or fatalism on the part of employees. Excessive demands, if the prohibitions and commandments are trivial and therefore numerous. Fatalism, because the staff can get the impression that their manager has

no confidence in the team's ability to organise itself. Both undermine motivation instead of improving work results.

Society is represented in most work teams. Different characters and personalities work together to achieve a common goal. Homogeneous treatment cannot do justice to this heterogeneity. Nudging can contribute to lead each team member individually.

After all, nudging is a compromise. It can be assumed that nudging in response to the fears of the liberals does not mark the beginning of the end and that the supporters of the idea that it is the ultimate solution are also mistaken. Despite the opposition's perhaps justified objections, the libertarian paternalism offers some potential whose possible effects should at least be examined.

Nudging can help to make better decisions. Anyone who does not need the nudge for their personal optimal decision can ignore it. Everyone else should be able to trust that it is in their interest.