

## Introduction

# The incentive revolution

### “Nudge ... a lot.”<sup>1</sup>

“Nudge ... a lot.” That might sound like odd advice, but it’s taken from an outstanding book entitled *Work Rules!* and given by one of the world’s leading experts in human resources management, former Senior Vice President of People Operations at Google, Laszlo Bock.

He goes on to say: “Nudges are an incredibly powerful mechanism for improving teams and organizations.”<sup>2</sup>

But what does he really mean by that? What’s behind this powerful statement from a company that became the world’s number one in 2016, while picking up the HR awards *Great Place to Work* and the *Best Diversity Employer*, as well as being voted the most desirable employer for undergraduates, and MBAs in several different countries?

The purpose of this book is to show how Nudge can be a management revolution and bring a real boost to employee engagement, well-being, and even business performance by explaining how to make high quality decisions and encourage winning behaviors.

As you’ll see, Nudge is neither a miracle cure nor the latest fad that will soon give way to another. It is an approach based on the most recent findings in behavioral science, supported by a new key discipline: behavioral economics, and has been the subject of several Nobel Prizes in Economic Sciences<sup>3</sup> since the early 2000s. It has been put into practice by many different governments, international organizations and major pioneering corporations.

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1 Laszlo Bock, *Work Rules!: Insights from Inside Google That Will Transform How You Live and Lead*, John Murray Publishers, 2015.

2 *Ibid.*

3 Daniel Kahneman in 2002, Thomas Schelling in 2005, Robert Shiller in 2013 and Richard Thaler in 2017.

Knowledge of behavioral science and the gentle encouragement of a Nudge can be a wonderful competitive asset for managers and companies. It can help them to make better decisions throughout the organization and focus on how to bring about useful behaviors. Sharing openly and communicating, stimulating employee and team cooperation, supporting innovation and facilitating internal transformations, the possibilities are endless.

Behavioral science, spearheaded by the Nudge approach, can create the structural conditions required for success by putting in place the physical and mental frameworks that encourage good decisions, incite people to adopt good behaviors within the company, and on the basis of these behaviors, bring more engagement and improved well-being.

The aim of this book is both simple and very ambitious: help companies to significantly boost their performance and generate well-being among their employees by drawing on the behavioral science revolution and its secret weapon: the Nudge.

It is mainly for business people and employees, especially leaders and managers, those who are striving to be pioneers in the most recent scientific teaching methods to boost their chances of success. It can be applied to any occupation, as long as it is involved with the overall running of the business. In addition to general management, people working in human resources, innovation and marketing, the employee experience, training and internal transformation are all concerned by the issues raised within its pages.

In addition to leaders and managers, employees who want to understand their work environment better, improve their everyday experiences, find greater meaning in their daily tasks and boost their individual and collective efficiency both for their own benefit and that of their company will find useful ideas from among the solutions I suggest.

Finally, management students may also be interested in the Nudge approach, if only to identify companies that are already involved in this revolution and could be a good fit for a future employment opportunity: both for their own well-being and for the chance to join a company that knows how to maximize its chances of success.

But let's start from the beginning, with behavioral science, and behavioral economics in particular.

## A revolution in behavioral science...

Understanding why we act in one way or another on a given day or throughout our entire lives. Understanding what motivates us to behave or discourages us from behaving in a certain way. Understanding how other people's behavior influences our own, how elements in the world around us can influence our choices and how emotions or cognitive biases affect our decisions. That's what behavioral science aims to achieve.

Generally speaking, it's about drawing on rigorous scientific experiments to identify what really drives us to make the most fundamental decisions in all aspects of our life – the ones that have a lasting impact as well as the ones we make on a daily basis.

As its findings were gradually proven to be true, behavioral economics became “mainstream” to quote the famous consulting firm McKinsey<sup>4</sup>. Perceived in the early 1970s as marginal, the field of behavioral economics was gradually given more respect for its considerable contribution to the understanding of human behavior until finally it became a central focus. To date, no fewer than six Nobel Prize in Economic Sciences<sup>5</sup> holders have focused their work on this line of thought, including the 2017 winner, Professor Richard Thaler, who co-designed the Nudge approach with Cass Sunstein.

We'll see that discoveries made in this new field, which have benefited from more than forty years of research, fundamentally challenge how we understand human decision-making and behavior. The Economic Man from conventional decision-making theory – the famous *Homo economicus* – has been replaced by a being who looks much more like us, a sort of Homer Simpson in flesh and blood with

4 Dan Lovallo and Olivier Sibony, “The Case for Behavioral Strategy”, *McKinsey Quarterly*, March 2010.

5 Daniel McFadden in 2000, Georges Akerlof in 2001, Daniel Kahneman in 2002, Thomas Schelling in 2005, Robert Shiller in 2013 and Richard Thaler in 2017.

impulses and emotions, and makes a series of never-ending mistakes, despite his good intentions.

We'll find that what we've learnt from this quest for a better understanding of human behavior is truly revolutionary.

No, humans are not rational beings as described long ago by Descartes and classical and neoclassical economists. No, we are not able to analyze the characteristics of each option involved in a choice in a cold and calculated manner to identify the one that maximizes its usefulness, in a demonstration of abject selfishness.

No, at work, people are not primarily motivated by a salary and material rewards, and yet this is precisely the basis of the motivation system that the vast majority of companies go on using every day.

No, making a good decision – individually or as a group – is not natural, and can actually be a huge challenge, not just because of the uncertainty of the environment and the effects of ongoing changes, but because of our own internal decision-making biases.

No, innovating or accepting change, let alone encouraging it, isn't self-evident for employees, because it doesn't fall in line with who we are deep down.

As we'll see when we take a look at recent findings in the field of behavioral economics, we are complex beings, and our behaviors are guided by many different factors. To quote Dan Ariely from Duke University in his enlightening book *Predictably Irrational*<sup>6</sup>: “we are really far less rational than standart economic theory assumes. Moreover, these irrational behaviors of ours are neither random nor senseless. There are systematic and since we repeat them again and again, predictable.”

We will take an in-depth look into these irrational behaviors and why they occur, because by using this intimate understanding, we are going to put forward a new way of thinking about how companies are organized internally, with a view to achieving more team-based effectiveness and personal well-being by boosting employee engagement.

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 6 Dan Ariely, *Predictably Irrational: The Hidden Forces that Shape Our Decisions*, HarperCollins, 2008.

I'm a businessman. After a few years with Yoplait as a product manager in the marketing department, I founded my first company with my friend Alain Sivan in 1989. It was called IN VIVO, and now offers expertise for Fast Moving Consumer Goods businesses in the form of PRS IN VIVO, part of the market research and consulting firm BVA, of which I am the managing director.

Since we created IN VIVO, I have had the chance to go on developing the original concept of our business internationally, creating affiliates first in the main European countries, then in the United States and finally in Asia. For almost thirty years, I have been lucky enough to work with many of the world's biggest and best-performing companies, including Procter & Gamble, Nestlé, L'Oréal, Danone, Orange, Unilever, Mondelēz, Chanel, Coca-Cola, Mars, BMS, and many more. Over the years, I have watched how they work and operate, always driven by what I have been able to learn and understand.

As a businessman, I am interested in how companies perform. This book is extremely pragmatic and I hope it will be useful for both businesses and their employees.

I didn't write this book to share my beliefs and feelings about management, it is a work based on the most recent and proven scientific findings. What do we know about the basic ideas behind human behavior and how can we apply that knowledge to companies – using rigorous experiments that have been carried out for decades by the best researchers, and applied by the most cutting-edge companies – to enhance collective performance and improve individual well-being?

Because my enthusiasm as an entrepreneur has been spurred on by the world of academia and university research, I have always thought that studies and experiments of these kinds could help businesses and entrepreneurs to perform better. So I worked on and studied a great many academic publications; I also set up connections between the world of research and the business world by holding symposia to get feedback from businesses and researchers and by creating a prize for a thesis that was awarded to the best researchers. And I have always talked a lot with French and international researchers to improve my understanding of their results.

So this book is rooted in science. It draws on the most recent work carried out by behavioral scientists with a view to helping companies reach the holy grail of performance and well-being, individual and group effectiveness, and daily engagement.

Lastly, I see myself as both an entrepreneur and the builder of a “bridge to science”. I wrote the book from this perspective, because it strives to take the realities and constraints of business life into account – any theoretically good solution might not be applicable to all companies – while putting forward innovative, tried-and-tested solutions that stem from research into behavioral science on the most strategic issues: how do we make the best decisions? How do we attract talent and build a great team? How do we innovate on a daily basis and stay ahead of the competition? How do we encourage cooperation among employees and break with convention?

We now know a lot about what motivates behavior in the workplace, about what encourages or hinders employee engagement, about what we need to do to succeed in terms of innovation, internal transformation and learning. But there is often a huge difference between academic theory and how practitioners use that knowledge. And that’s the gap that this book will try to fill.

## **Nudge: the power of a boost**

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The Nudge – whose name is taken from the title of a seminal work<sup>7</sup> by professors Richard Thaler and Cass Sunstein – is an approach that aims to turn innovative insight from behavioral science into action.

When it was published in the United States in 2008, the authors made it possible to move from theory to practice, from the knowledge of what influenced behavior to how to use that knowledge for more effective purposes in public policy. Behavioral economics teaches us what drives human behavior. The Nudge idea is based on this knowledge, and encourages individuals to transform any harmful

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 7 Richard Thaler and Cass Sunstein, *Nudge: Improving Decisions about Health, Wealth and Happiness*, Penguin Books, revised and expanded edition, 2009.

behavior into behavior that is beneficial for themselves and for the community. The Nudge approach helps individuals to make better personal and professional decisions. It can be used to recommend effective actions, based on a new understanding of human behavior.

In concrete terms, behavioral economics researchers have drawn up a list of factors that influence behavior, cognitive biases and decision heuristics, all of which create – following specific analysis of a given situation – what is known as “choice architecture”, that naturally encourages individuals to make better decisions and adopt desired behaviors.

And the Nudge approach has seen some spectacular results! A tiny detail intelligently added to the environment when a person is asked to make a choice can bring about a spectacular change in behavior, if that detail is able to activate an influence that behavioral science experiments have identified as important.

Just position a small sticker with a picture of a fly in the middle of a urinal at Schiphol Airport, and cleaning costs plummet, as travellers aim at the central target and splash back is dramatically reduced. When green footprint stickers appeared on the streets of Copenhagen, put in place by Professor Pelle Hansen and his team to show the path to the nearest trash receptacle, the volume of waste on the streets dropped by nearly 50% because the stickers reminded people of the right thing to do at the right time. Finally, a basic graph on an energy bill comparing a user’s consumption to that of their neighbors in California potentially saved millions of dollars. There are now a great many examples of the incredible effect these tiny nudges can have.

From 2010, the governments of influential countries such as the United States and the United Kingdom began using the Nudge approach to tackle major public policy issues more effectively: encouraging people to take better care of their health, be eco-responsible, pay their taxes on time, take professional training courses, choose green energy solutions, etc.

But they aren’t alone. Companies have also begun taking an interest.

## From Nudge to Nudge marketing...

Enthusiasm from the business world has grown gradually, as the books by Sunstein and Thaler, as well as Dan Ariely's work, have been reporting worldwide success. Following on from this, the authors began receiving invitations to share their ideas at business conferences such as *The Marketing Research Event* – the biggest international meeting held in the United States each year for marketers from around the world – which hosted Richard Thaler in 2010, Daniel Kahneman in 2012 and Dan Ariely in 2015. Dan Ariely has also presented several TED talks, and notched up over a million views, the best one attracting over five million. He also created a Mooc<sup>8</sup> in 2013 to explain the ideas behind behavioral economics. With over 100,000 people registered, this initiative was another huge success.

I made my own attempt to contribute (a much more modest contribution than those made by the people I mentioned earlier) to sharing knowledge about behavioral economics and how it is used beyond public policy, in marketing, when I published *Nudge Marketing*<sup>9</sup>. The BVA Nudge Unit, that I created in 2013 with my friends Richard Bordenave and Étienne Bressoud, also helped boost awareness of these new approaches through various events.

The combined effect of these actions was soon felt. Proof of growing interest came in the form of Indra Nooyi – Global CEO of PepsiCo – who was quoted in the *Harvard Business Review* as saying: “We’ve taken lessons from Richard Thaler and Cass Sunstein’s book *Nudge*.”<sup>10</sup> The concept is growing in popularity within companies for the same reason that Nudge is gradually becoming more widespread in public policy: it can bring about impressive changes in behavior at a low cost! And just like governments, companies are also looking for greater effectiveness on smaller budgets. Businesses are discovering that in addition to communication and marketing, it is possible to encourage beneficial behavior from customers using a much more frugal approach. For

8 *A Beginner's Guide to Irrational Behavior*, Coursera.

9 *Nudge Marketing: Winning at Behavioral Change*, Pearson, 2015.

10 Adi Ignatius, “How Indra Nooyi Turned Design Thinking Into Strategy: An Interview with PepsiCo’s CEO”, *Harvard Business Review*, September 2015, hbr.org.

example, it can be used to make customers more loyal, try new products or services, find out about online services, ensure that patients comply with their treatments, use technical products correctly, make an application simple and easy, ensure that a point of sale experience is exciting or that a visit to a website leads to the desired action, etc.

The Nudge approach is developing quickly in private companies, where it is seen as a new and very effective addition to traditional tools, and a way to transform customer behavior into a win-win relationship that creates long-term value for business, for both parties. Of course this is just the beginning, but it's really starting to catch on. I know this from personal experience, because in my own business we worked for more than forty major companies last year using the Nudge approach, in many countries such as the United States, France, the United Kingdom, and Germany as well as Thailand, India and the Philippines.

## Setting the course for Nudge management

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As we developed quickly and on an international scale, however, one element became increasingly clear: the use of Nudge and lessons in behavioral economics had been mainly directed towards end users: private citizens, product consumers, customers buying a service or patients who were being followed up after a treatment. But they hadn't been used for promoting desirable behaviors within a company or an organization.

So why not use the behavioral science revolution and the Nudge approach within the company itself, for its own benefit and that of its employees?

That's what this book is designed to do.

My strong belief is that by gaining in-depth knowledge of the factors that influence behavioral economics – combined with the transformative power of the Nudge approach – companies can benefit their employees and achieve better overall performance. It is possible to think about your business with that understanding in mind to enable better decision-making, whether you're dealing with the CEO, team leaders, a project group or employees going about their daily tasks, as well as

designing and implementing psychological and physical environments that encourage people to adopt beneficial collective behaviors.

While the first uses of Nudge have focused on transforming the behavior of “external” customers, there is no reason that it should only be applied in those cases. As Laszlo Bock pointed out, it is not only possible, but highly desirable, to build on the in-depth understanding of behaviors and motivational factors and apply this knowledge to companies to improve engagement, encourage employees to behave the way we want them to, and boost company competitiveness and employee well-being.

And it will bring about a revolution, because while some companies – Google, Facebook and even Tesla – have already understood and now rely on behavioral science to build a work environment that is conducive to performance and success, it is not the case for the vast majority. Of course most companies take the opposite approach, because they have remained under the influence, often unconsciously, of the long-dominant theory of a rational human being who is mainly motivated by the carrot and the stick. If employees are motivated to adopt the desired behavior because their salary, career or even presence in the company depend on it, then these levers must be activated to motivate them and generate the engagement that all entrepreneurs want from their employees.

But it is clear to see that this isn’t effective, or at least that it could be a lot better, and that’s why so many employees around the world now say that they are only barely committed to their work. In the Gallup global survey of 230,000 employees in 142 countries, only 13% of respondents say they felt engaged at work. At the same time, 63% of individuals say they are not engaged and, perhaps even worse, 24% say they feel actively uninvolved! Commenting on the results of this study, the renowned psychology professor Barry Schwartz states: “Work is more often a source of frustration than one of fulfillment for nearly 90 percent of the world’s workers.”<sup>11</sup> There is even talk of “bore-out”: professional exhaustion brought about by the boredom that leads to demotivation.

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11 Barry Schwartz, *Why We Work?* Simon & Schuster, New York, 2015.

All of this can and must change. There have been more and more scientific studies in recent years aimed at improving our understanding of individuals at work. This knowledge has expanded and is now available for anyone to access. But it's not only a question of knowledge. The challenge is how to apply this knowledge to everyday life within the workplace, to generate the behaviors we are striving to obtain.

It's a great opportunity, because we now have plenty of evidence to prove the strong link between well-being at work, employee engagement, and performance. The study carried out by the Great Place to Work Institute, in partnership with *Fortune*<sup>12</sup> magazine, shows that Best Place to Work companies perform twice as well on the stock market than others!

Improved performance is at your fingertips, it is possible to achieve both better results, AND increased well-being. And you can do it without investing millions. In the spirit of Nudge – keeping costs down – consider the company as a structure that needs to be shaped in order to incite employees to adopt more beneficial behavior, and promote good decisions as well as individual and collective effectiveness.

The Nudge approach is about taking a new look at how we manage, and is based on behavioral science. Its aim is not to mechanically motivate a rational human being who doesn't even exist in reality, but rather to incite, encourage and facilitate engagement and beneficial individual and collective behaviors by designing a relevant physical and psychological environment that takes into account the reality of human nature in all its complexity.

This book is separated into three parts, each of which corresponds to the three fundamental ideas on which Nudge management is based:

- *Understand*: The first part aims to share the fundamental knowledge required to apply the Nudge management principle with a two-fold goal: to share the lessons taught by behavioral science to understand what really influences human behavior; identify the consequences of these revolutionary discoveries

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12 See [greatplacetowork.com.sg/our-approach/what-are-the-benefits-great-workplaces](http://greatplacetowork.com.sg/our-approach/what-are-the-benefits-great-workplaces).

through the four major challenges of corporate performance and how human beings really become engaged.

- *Build foundations:* The second part describes the two fundamental pillars of Nudge management that refer on the one hand to individual effectiveness and on the other hand to collective performance by designing a physical and psychological environment that creates the conditions for engagement and success.
- *Encourage beneficial collective behavior:* The third part lays out the specific conditions to encourage two main beneficial behaviors for 21<sup>st</sup> century companies: attracting talent that cooperates with one another and establishing the conditions for a naturally learning-focused and innovative company.

And now, let's see just how powerful Nudge management can be.