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NUDGE NUDGE

Influencing the behaviour of others is essential to business success.

AUTHOR – **Richard Chataway**

IF you are in business, you are in the business of behaviour. Unless a business influences behaviour, it will not succeed. A business needs people to buy and use its products and services to generate revenue. It needs people to make and deliver those products and services.

Or at the very least it needs people to create those products and services, or to build and program the machines that create them. And it needs to do those things better than its competitors to survive and grow. In the world of credit management, unless a business influences financial decision-making, it cannot hope to achieve desirable outcomes.

This much should be self-evident. But there are plenty of things businesses do that fly in the face of the latest evidence on how, and why, people behave as they do. Businesses frequently don't even try to change behaviour, but merely perceptions or attitudes, and wrongly assume behaviour will follow.

The good news is that in the last 50 years we have learnt more about how, and why, people behave as they do than we learnt in the previous 5,000! Like advances in medicine, technology, and computing, the growth of knowledge in behavioural science has been extraordinary. It has been driven by academic disciplines like behavioural economics, social/evolutionary psychology and neuroscience, and the work of a number of dedicated practitioners. Two key luminaries – Professors Daniel Kahneman and Richard Thaler – have been awarded Nobel Prizes this century. There is much for businesses to learn.

HOMER VS SPOCK

If there is one critical thing to learn from behavioural science it is this: *what people do is frequently not the same as what they say, or intend, to do.* If a business does not employ this understanding of how people make decisions – that they are frequently driven by their subconscious, and external factors they are not aware of – they are wasting the business' money (and that of any shareholders).

These subconscious heuristics (mental shortcuts) and behavioural biases are important because we use them to help us make the thousands of decisions required every day.

"Many people are overconfident, prone to put too much faith in their intuitions," wrote Kahneman. "They apparently find cognitive effort at least mildly unpleasant and avoid it as much as possible."

In short: we think less than we think we think. As Thaler and Sunstein, authors of the book '*Nudge*' put it, we are often less like Spock, and more like Homer Simpson.

The importance of this is twofold: one, we have chronically underestimated just how much of our decision-making is of this instinctive type, with some estimates indicating that it accounts for between 90–95 percent of our daily behaviour; two, that only by understanding these heuristics and biases can we effectively explain, influence and change behaviour.

We are more like Homer Simpson than we care to realise or admit. These behavioural biases are hugely important in determining how we behave. They perform an important function, not least because of our increasingly complicated lives, where we are often over-burdened with information and stimuli.

This work has shown that when considering influencing behaviour in business it is important to think about whether you are dealing with Homer or Spock. Because you will be dealing with Homer more often than you might realise.

IRRATIONAL DECISIONS

Financial decisions are not rational. Hence why we always have less money in the bank at the end of the month than we expect. These heuristics and behavioural biases – in this case, our optimism bias – lead us to make all kinds of financial decisions that often result in negative or irrational outcomes, and often to credit issues.

For example, behavioural science experiments consistently show decision-making to be adversely affected by poverty. Financial stress makes it more difficult for people to think clearly, rationally and logically about important decisions, making it more likely for them to make their situation worse.

"There is emerging research which shows that financial worries absorb mental capacity – or 'bandwidth' – needed for attention and problem solving," said a 2016 report by the Behavioural Insights Team. As Kate Glazebrook, one of the authors of the BIT report, explained to

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me: "The mental processes that we undergo when we are poor, be that financially poor or time poor, actually have a lot of the same kinds of characteristics. If you think about somebody who's relatively wealthy, quite financially literate, might still be late on making payments on their credit cards. They literally don't have time, and they've got so many decisions they're taking in a given day, that they just don't quite get around to it even though rationally they absolutely should. Because the cost of not doing that is real."

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She cites research by Eldar Shafir and Sendhil Mullainathan that found that being in a state of change from financial plenty to scarcity reduced the IQ level of the same Indian farmers from the top quartile to a median IQ, and from a median IQ to someone who was cognitively challenged. This was equivalent to the cognitive impairment that one might feel from losing a night of sleep.

CASE STUDY

As a case study of applying this thinking to financial decision-making, in 2017/2018 I worked on a project with partners at OEE Consulting (now GoBeyond Partners) a leading services and operations management consultancy.

The client was an outsourcer that ran a call centre for one of the UK's largest savings banks (having over 20 million customers). OEE Consulting was developing a number of new processes and systems, based on lean principles, to deliver better processes in the call centre. These had both an efficiency (i.e. money-saving) objective and an effectiveness one (i.e. delivering better service for customers).

I was brought in to advise on how we could deliver better customer service through addressing what customer service representatives (CSRs) were saying on the phone. That is, using behavioural nudges to improve the quality of outcomes for both customers (more successfully answering their reason for calling, such as making a balance transfer) and the bank (reducing the duration of calls so they could handle more, as well as encouraging customers to take up online and paperless offerings).

Our analysis found a surprisingly high number of people were failing the mandatory security checks. After listening to calls, we discovered this was because the framing of these checks was very formal, and slightly confrontational. CSRs were in effect saying that if customers could not prove their identity, the bank could (and would) not help. With older customers in particular, this interrogatory approach was causing them undue stress – which has been proven to affect 'mental availability' and the ability to recall information.

As a result, they would frequently panic and get their answers to the mandatory security questions wrong. This lengthened the call, as well as making it unsuccessful and frustrating for the customer.

TWEAKED WORDING

With a few small tweaks to the wording, we changed the scripts to frame them more positively (e.g. from 'if you prove your identity' to 'when you prove your identity') and even said to customers that they could 'take their time', to put them more at ease – a counter-intuitive solution. By slowing down the conversation, this would actually reduce the overall length of the call.

It is an example of how behavioural science tells us that how you say something is as important as what you are saying, if not more so.

This was one of multiple interventions ('nudges') employed. For practical reasons it was not possible to isolate each nudge. Instead we ran a controlled pilot where a representative sample of CSRs in the call centre were trained and coached in using these nudges over a 12-week period, and we monitored the outcome of those calls versus the rest of the call centre.

There was a clear, direct link between what our decisions were as a business, and a behavioural outcome. Over the course of the pilot, there was an 11 percent reduction in the duration of calls versus the control, worth potentially millions of pounds due to the thousands of calls handled every day. Customer satisfaction levels increased, and we could prove overall success in terms of efficiency and effectiveness based on behavioural outcomes. Subsequently the training and process was rolled out to the other 300 CSRs in the call centre.

This work shows that an effective use of behavioural science, and employing what I call 'test-tube behaviours' – an experimental, evidence-based approach to testing and learning based on actual behaviour, is not just a nice-to-have for a behavioural business. It is essential.

Richard Chataway is a Vice President of BVA Nudge Unit UK, and a board member of the Association for Business Psychology. His book 'The Behaviour Business' will be published in February 2020 by Harriman House. This article is adapted from his presentation to the CICM Think Tank.