Interesting things you need to know about you never in control of your own decisions

Author: Jerry Ndemera . February 2020

We like to think of ourselves as smart rational beings. We assume we are very knowledgeable in certain aspects of life and we are in full control of the decisions we make. Take, for example, writing a grocery list for your home, deciding on which brand of tinned beans to purchase, which supermarket to go to and what time. We assume all this is entirely within our control and every decision made is completely up to us. If that is so, have you ever wondered how people make bad choices?

The sad reality is, we are not rational beings. We are very much influenced by cognitive bias and mental shortcuts. We are influenced by our emotions. We are influenced by our social interactions and environment where we are. Scientific research shows us that.

The Nudge Theory

Professor Thaler, one of the founding fathers of Behavioural Economics, coined the word, "nudge". His contribution popularised behavioural economics and he won a Nobel prize for economic science in 2017. Here is how the mainstream media reported on the event.

- “Mr Thaler helped demonstrate how human reasoning diverges from that of the perfectly rational homo economicus used in most economic modelling”, one Economist.com article reads.
- "American professor wins Nobel Prize in economics for trying to understand bad human behaviour" read a headline from the Washington Post
- "Richard Thaler's findings have inspired many other researchers coming in his footsteps and it has paved the way for a new field in economics which we call behavioural economics," Mr Stromberg, Nobel prize judge

Professor Thaler and Cass Sunstein co-authored a book titled, "Nudge: Improving Decisions About Health, Wealth, and Happiness" The book continues the work started by earlier academics, psychologists, Daniel Kahneman and Amos Tversky. The nudge theory is a modern concept for understanding how people think, make decisions and behave. It is a concept of managing change of all sorts. The work on the nudge theory led to the United Kingdom forming a nudge unit to find new ways of changing public behaviour.

How does nudge theory work?

Given two options, we are likely to pick the wrong one. Even presented with a factual analysis we are still likely to pick the wrong choice

Example 1: Healthy Eating

Science shows fast foods are not healthy and we are encouraged to eat more organic foods, salads and less processed foods. Despite the abundance of evidence to support this, we are still more likely to go for chips and burgers.

Example 2: Safety on the road

Despite all the road safety campaigns encouraging people not to drink and drive, not to text or call while driving, not to speed on the road, accidents are still recorded due to such behaviour. People know the right things to be done but they opt for the wrong choice.

Nudge theory considers all this, based on the premise that people will often choose what is easiest, “more fun”, “cool” over what is wisest. Dan Ariely shows this perfectly in his book Predictably Irrational.

Conventional Economics and Behavioural Economics

The standard or neoclassical economic analysis assumes that humans are rational and behave in a way to maximize their self-interest (Dawnay and Shah, 2005). This on its own is not sufficient. History has shown us economic modelling based on that assumption alone has sometimes come short. Behavioural economics increases the explanatory power of economics by providing it with more realistic psychological foundations (Camerer, 2002). It is concerned with the human aspect of decision making.

An example of behavioural economics in play

Let us say you love to read and are looking at a website showing you options of subscriptions you can purchase. One option is for digital copies, another one for printed copies and the third one for both digital and printed copies. The way these options are presented will surely influence your decision. However, things get interesting when there is one option labelled, "default", "most recommended". The more uncertain you are about your decision the more likely you will go with the default option. This is a minimalist example of behavioural economics at play.

Here is some nudge theory in practice

A nudge is a simple effective low-cost technique to influence new behaviour. This could be a push notification from a jobs website notifying you of a new job posting or a text from your internet service provider. It is a system of gentle encouragement based on advanced knowledge of the decision-making process. The nudge has the remarkable power to change behaviours through cost-effective actions.

Examples:

The nudge has been used to encourage to donate organs (Applying Behavioral Insights to Organ Donation, UK Behavioural Insight Team 2013)

Reducing power usage in homes (Opower, Hunt Allat 2011)

How you can use the nudge in your context

Any change management you want to facilitate if it involves changing human behaviour. Nudge can be very useful.

References:

1. https://www.economist.com/finance-and-economics/2017/10/14/richard-thaler-wins-the-nobel-prize-for-economic-sciences
2. https://www.washingtonpost.com/news/wonk/wp/2017/10/09/american-professor-wins-nobel-prize-in-economics-for-trying-to-understand-irrational-human-behavior/
3. https://www.bbc.com/news/business-41549753