

Nudge Theory – An Application of Behavioral Science in Management for Organizational Growth

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ABSTRACT

Nudge theory is a concept in behavioral science, political theory and economics which proposes positive reinforcement and indirect suggestions to try to achieve non-forced compliance to influence the motives, incentives and decision making of groups and individuals. Nudge means to push slightly or gently to get someone's attention, prode someone into action. Richard Thaler, the father of Nudge Theory has published a book named as 'nudge' associated with Sunstein in 2008. In 2017, he was awarded the Nobel Memorial prize in economics sciences, reasoned that his contributions have built a bridge between the economics and psychological analysis of individual decision-making. The proper implementation of Nudge Theory will systematically affect the individual decision as well as market outcomes which directly promote the organization's growth by the voluntary action of its manpower. Present world, the successful implementation of behavioural science in management is highly important for the organization's growth, which encourages the people to make decision or act in their broad self interest instead of penalising people financially if they do not act in certain way. This study aims to probe the importance of nudge concept for organizational growth.

1. Introduction

An organization's growth is directly related with the individuals associated with it. Thus it is highly important to know the nature of an individual who is participating with the organization. In that perspective the behavioral science is of great importance to a business management, as it deals with science studying behavior. Sociology and psychology are the two areas of this studies that is very much concerned the ways in which people behave. Motivation, attitude and perception are the major components to establish positive thinking that may be proven advantageous in the attainment of organizational goals. Motivation causes a feeling of enthusiasm and interest and commitment. Motivational technique is very much useful to a business management, as it inspires the employees towards working by adding excitement or interest. In the same way enhancement of positive attitude is necessary for both managers and the employees. Positive attitude provides positive results to the entire organization. In an organization, same environment is viewed differently by individuals depending upon their personalities, needs, experience and so on. It is mandatory to develop perceptual abilities in order to establish positive thinking. Hence the application of Behavioral Science in Management is highly important for an organizational growth.

2. Objective

Studying the behavioral science of people associated with an organization is the best method to manage them for achieving organizational goals. When compare to the other organizational theories, Nudge Theory is the best application for organization management to attain the optimum productivity of the organization without any pressure and constraints.

3. Organization and Organizational Theories

Organizations are defined as social units of people that are structured and managed to meet a need, or to pursue collective goals. There are many theories suggested and implemented for organizational analysis to maximize performance by minimizing the effects of internal constraints. The major theories of organizations include Bureaucratic theory, Rational system perspective, Division of labor, and Contingency theory.

Bureaucratic Theory: The official jurisdiction on all areas is ordered by rules or laws already implemented and the organization management requires training and specialization. There is an office hierarchy system in which higher offices supervise lower ones. When a bureaucracy is implemented, it can provide accountability, responsibility, control, and consistency but it rarely takes into consideration human error.

Rational System Perspective: An organization managed scientifically based on specificity of goals and formalization. In a rational system, dividing work between managers and workers providing an incentive system based on their performance. Here developing a science based on individual responsibilities and trained them scientifically and making sure the work has done on time efficiently. But the main problems arose out of this scientific management are the standardization leads workers to rebel against managers and the workers may reject the incentives due to the constantly work at their optimum level.

Division of Labor: In an organization, the division of labor is inevitable which leads to increased productivity and distinct skill due to the occupational specialization, expertise in specific task, selection of technology. But it would create a negative

effect in labors due to the lack of creativity, monotony, and lack of mobility.

Contingency Theory: An organization must try to maximize performance by minimizing the effects of varying environmental and internal constraints. According to contingency theory, The optimal organization, leadership, or decision making style depends upon internal and external factors such as the size of the organization, the organizational environment and the area and the type of activities perform. That means an organizational leadership, or decision making style is unsuccessful in similar type of organizational environment in all situations.

The theories of organizations such as Bureaucratic theory, Rational system perspective, Division of labor, and Contingency theory, each theory provides distinct advantages and disadvantages when implemented. The formation and development of organizations sooner or later, many researchers have experimented as to which organizational theory fits them best. But all those theories are proposed bases on the nature of organization or its organizational environment which directly or indirectly force the manpower to work hard and achieve the goal without considering the behavioral science or psychology of individuals. Here Nudge theory performs a significant role in organizational growth and its management.

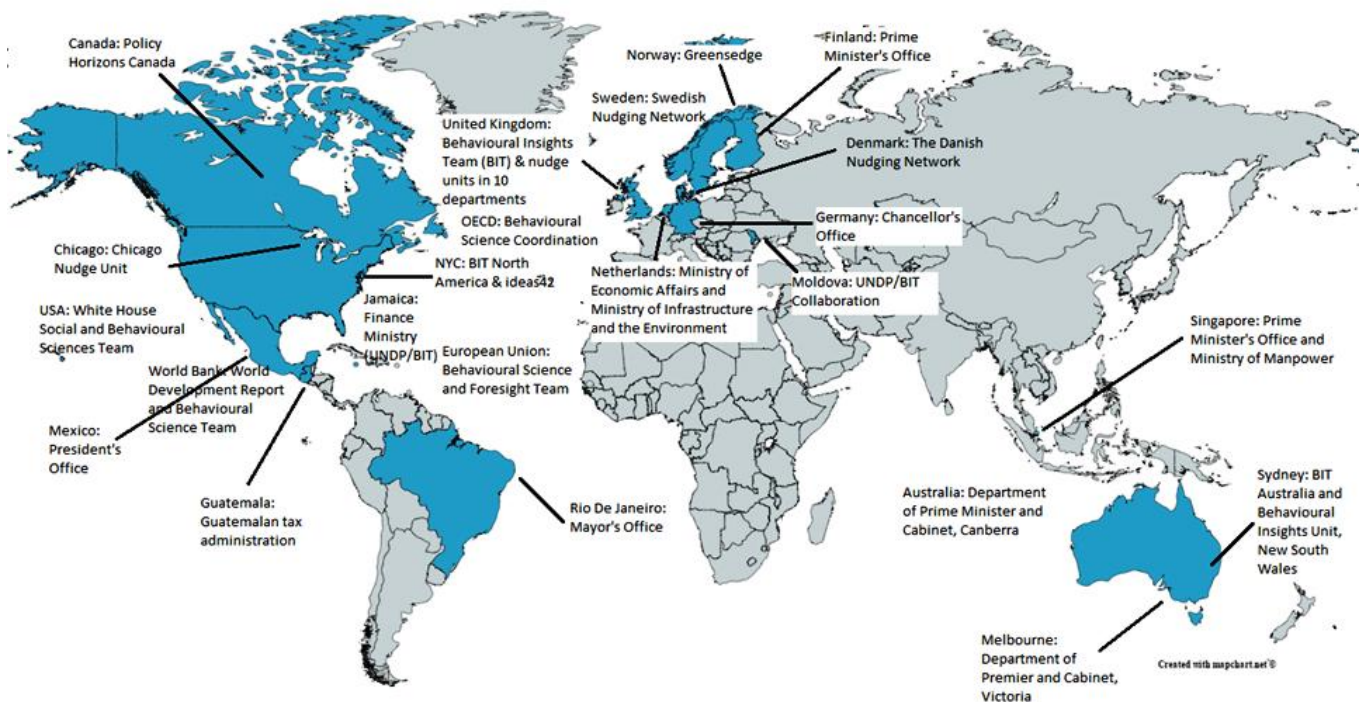
4. Nudge Theory

Nudge theory is a concept in behavioral science, political theory and economics which proposes positive reinforcement and indirect suggestions to try to achieve non-forced compliance to influence the motives, incentives and decision making of groups and individuals. Nudge means to push slightly or gently to get someone’s attention, prod someone into action.

The Behavioural science play a significant role in business management, as it deals with science studying behaviour. It is the study of sociology and psychology. Individual, culture and society are fundamental components of behavioural studies and these components are very much concerned with the ways how people behave.

Richard Thaler, the father of Nudge Theory has published a book named as ‘nudge’ associated with Cass Sunstein in 2008. In 2017, he was awarded the Nobel Memorial prize in economics sciences, reasoned that his contributions have built a bridge between the economics and psychological analysis of individual decision-making. The proper implementation of Nudge Theory will systematically affect the individual decision as well as market outcomes which directly promote the organization’s growth by the voluntary action of its manpower.

NUDGE UNITS AROUND THE WORLD



5. Application of Nudge Theory

In a fastest growing organization and its complexities, the employees may sometimes need a gentle nudge in the right direction. By understanding the importance of nudge theory and behavioral economics, even certain government has recently been deployed Nudge units in order to lead people towards particular desirable outcomes. According to Richard

Thaler and Cass Sunstein , a nudge is:“Any aspect of the choice architecture that alters people’s behavior in a predictable way without forbidding any options or significantly changing their economic incentives.”

In 2010, the former Prime Minister David Cameron established a ‘Behavioral Insights Team in UK; It is often called

the "Nudge Unit", at the British Office. Seen as a low-cost and simple tool that has the potential to alter the behaviors and decisions of millions, the 'nudge' may prove to be an effective tool for governments in the future. This also helps the government allows the bureaucratic, obstructive and often time-consuming nature of traditional regulation to be sidestepped through a policy that is more flexible and laissez-faire. This offers dual benefits: not only does it provide a more cost-effective option for the state, but also provides the potential for businesses to be less constrained through bureaucratic regulation, thus allowing for a greater rate of productivity.

The data provided by the Behavioral Incentive Team (BIT) prove the influence of nudge theory in organization management and its growth. The Behavioural Insights Team (BIT) in the U.K. demonstrated the efficacy of nudging via sending text messages to remind civilians of paying fines by increasing the response rate from 5% to 33%. The application of 'nudging' the public into signing up to the organ donor register through displaying randomized messages on a website was also successful through recruiting over 350,000 people to register. Through applying these nudges into the public sphere, the annual financial savings generated by the BIT of a reported £300m evidence the economic benefits that the nudge theory can yield.

Similarly, former US President Barack Obama launched the White House's Social and Behavioral Science Team (SBST), a cross-agency effort to bring behavioral science

research into the policymaking process. The Department of Education team in US were tried to address an education issue called "summer melt"—the fact that each year, 20 to 30 percent of high school graduates who've been accepted to college just don't matriculate for their freshman year. Most of them are poor, the kind of students who would really benefit from a college degree. The Department of Education and the SBST partnered with a nonprofit organization to send text messages to selected students, reminding them to complete certain required tasks before showing up on campus, like filling out forms. That results to increase matriculated poor students number about 9 percent more.

Another example for the potential advantages of nudge theory is the 'opt-out' technique used in United States. The decision of a company to automatically enroll new employees in its retirement savings plan (making the 'default' to be opted-in) caused enrollment in the plan to increase from 60% to 95%.

6. Conclusion

Now the studies on behavioral science is very much prominent and in various sectors like telecom, electronics, banking etc. are applying nudge theory to analyze and categorize their customers. Also they apply nudge method to attract more customers providing suitable products. Regardless of the type of organization, whether it is Government or non Government, product oriented or service oriented, public sector or private sector, Nudge theory is applying for the organization management which optimizes the organizational growth.

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