

# Insights from Behavioural Economics

## Change Management EEP

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# Change management

# Change model - Unfreeze-Change-Refreeze

- **Unfreeze**
  - Prepare the organization for change
  - Break down existing status quo
- **Change (Transition)**
  - Implement the change
  - Manage confusion and resistance
- **Refreeze**
  - Solidify the new state
  - Integrate new behaviors
  - Ensure sustainability

# Kotter eight step model



# ADKAR (Jeff Hiatt)

The ADKAR Model, developed by Jeff Hiatt

- **A - Awareness**
  - Understanding the need for change
- **D - Desire**
  - Motivation to support the change
- **K - Knowledge**
  - Information on how to change
- **A - Ability**
  - Skills and behaviors required for change
- **R - Reinforcement**
  - Sustaining the change

# Appreciative Inquiry

## Appreciative Inquiry

Appreciative Inquiry focuses attention on what is working well and looks to amplify and develop areas of strength or promise rather than spending effort on problematizing deficient areas.

## Session Objective

### Objective

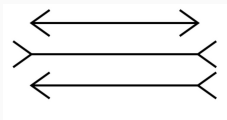
Understand the myriad ways in which human beings think and what cognitive biases they have, i.e., explore *behavioral quirks*.

How do we design/plan for change management keeping in mind behavioural responses.

# System 1 and System 2

## Muller Lyer Illusion

Identify which of the following arrows has the longest length? Indicate by writing the number (1 if first line, two if middle line, etc.) in the answer space.



## Bat and Ball Question

### Bat and Ball

A bat and ball cost \$1.10

The bat costs one dollar more than the ball.

How much does the ball cost?

*Check:* How many in class answered

## Nature of System 1 and 2

1. **System 1:** Operates automatically and quickly, with little or no effort and no sense of voluntary control.
2. **System 2:** allocates attention to effortful mental activities. Associated with subjective experience of agency, choice and concentration.

# System 1 and 2

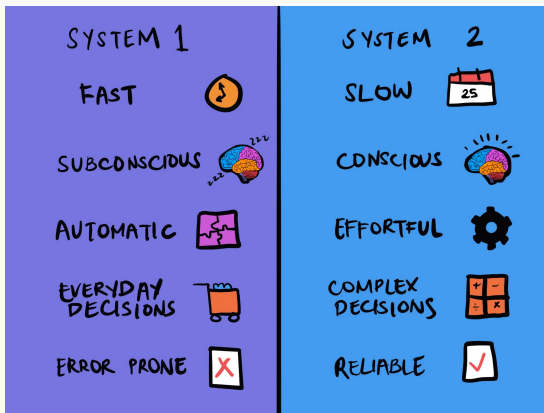


Figure 2: System 1 and 2

Image Source: The Decision Lab

# The Associative Machine

# Association

How do you evaluate the following picture?



**Figure 3:** A woman

# Associative Machine - Primes



**Figure 4:** Caption



**Figure 5:** Caption

# Word Association

Fill the blank

1. EAT → SO\_\_P

# Word Association

Fill the blank

1. EAT → SO\_\_P

2. WASH → SO\_\_P

# Word Association

Fill the blank

1. EAT → SO\_\_P

2. WASH → SO\_\_P

**Priming Effect !**

# Priming

1. Semantic Priming
2. Sensory Priming (Scent, Sight, Sound)
3. Associative Priming (e.g. Football → Play)
4. Behavioural Priming

## Application - Priming

1. No littering
2. Cleaner Personal and Public Hygiene
3. Reduced use of resources

# Heuristics and Biases

## Law of Small Numbers

Small samples are more likely to show extreme outcomes. Never infer based on small samples.

- Sequence of genders of five births in a small maternity hospital in a day could be *GGGGG* or *BBBBB*. This pattern is more common in a small sample (small maternity hospital) than in a large hospital.
- *Hot hand fallacy*: If we observe a basketball player for a short time, let us say we are observing him for five shots at the basket, we are more likely to see extreme outcomes, i.e. all shots into the basket or none at all more frequently as opposed when we observe him for 100 shots at the basket.

# Anchoring



**Figure 6:** Caption

The **Royal Bengal Tiger** is an endangered species as per the *International Union for Conservation of Nature (IUCN)*. Would you be willing to pay around ₹500 (SET A) / ₹2000 (SET B) or so annually to protect it? Please enter the precise Rupee (₹) amount you are willing to contribute annually.

# Tiger-Answer

**SET A:** Median 750

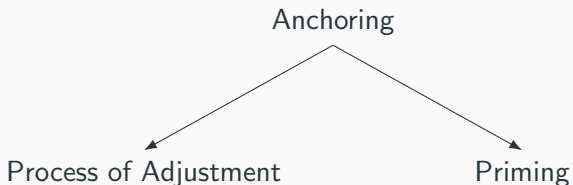
**SET B:** Median 2000

## Anchoring and Adjustment

*Cedrus deodara*, Himalayan cedar, or deodar, is a species of cedar native to the Himalayas. Is the height of the tallest Deodar more or less than 1200 feet (SET A) / 1500 feet (SET B)? What is the your best guess about the height of the tallest Deodhar tree ?

Answer:

# Anchoring



Anchoring is suggestive, but not necessarily informative. A random anchor is as good as an informative anchor at producing the desired effect.

# Application - Anchoring

1. Negotiation
2. Goal Setting

# Availability

The recollection/guess of the frequency of any event is directly related to how easy it is to retrieve from memory (based on availability).

# Availability

*Availability heuristic in practice:* Self-assessment of share of work one person, who is working in a group.

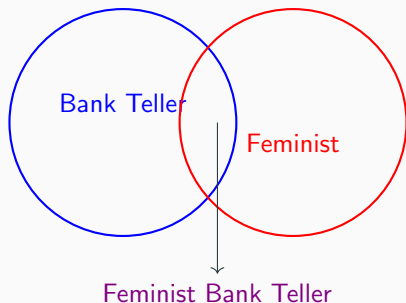
# Linda

Linda is thirty-one years old, single, outspoken, and very bright. She majored in philosophy. As a student, she was deeply concerned with issues of discrimination and social justice, and also participated in anti-nuclear demonstrations.

Which alternative is more plausible?

1. Linda is a bank teller
2. Linda is a bank teller and is active in the feminist movement?

# Conjunction fallacy



The probability of Bank Teller is higher than that of a person being *bank teller and a feminist*. Yet, people assign higher probability to *bank teller and a feminist*, because more convincing the stereotype, the more we assign probability.

## Social Influence

*One of the most effective ways to nudge (for good or evil) is via social influence.*

*—Sunstein and Thaler, Nudge (2008)*

## Social influence on littering



: Image courtesy: Wikipedia

## Cognitive ease & Creativity

Could you think and reflect about a recent episode in your personal life where you were (un)happy? If you do not mind sharing, please write two sentences about why the episode/ incident made you (un)happy.

Answer:

## Cognitive ease & Creativity

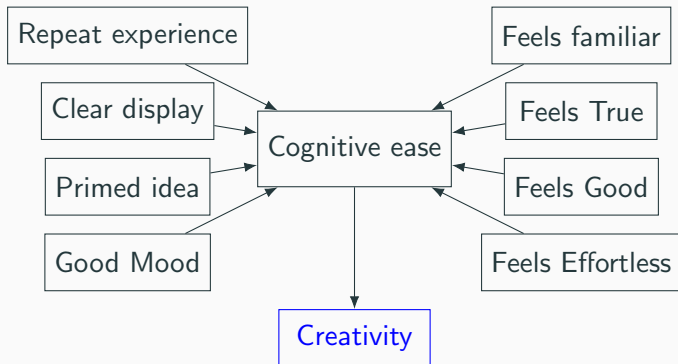
Could you identify a common word that can be prefixed or suffixed to every word to make another word?

1. Aid / Rubber / Wagon \_\_\_\_\_
2. Home / Sea / Bed \_\_\_\_\_
3. Wise / Work / Tower \_\_\_\_\_

# Boosting Creativity

What is creativity?

Creativity is associative memory that works exceptionally well.



## Priming with visual cues



**Figure 7:** Arrows nudge for handwashing

**Blackwell2018**

## Halo effect

Arjun

Arjun is intelligent, industrious, impulsive, critical and stubborn.

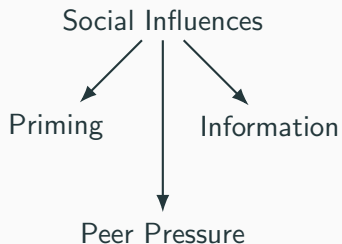
vs

Arjun

Bhima is stubborn, critical, impulsive, industrious, and intelligent.

What are your sentiments about Arjun & Bhima?

# Social Influences



## Choice Architecture



**Figure 8:** Choice architecture in Urinals

Fly in the Urinal, at Schipol airport, Amsterdam. Image courtesy: Peter Bilak

*'A fly may have unsanitary connotations, but that is exactly why nobody feels guilty aiming at it!' — Aad Kieboom*

# Prospect Theory

# Choices

Which one would you choose?

**A:** *Get ₹9 Lakhs for sure*

(vs)

**B:** *90% chance to get ₹10 Lakhs*

# Choices

Which one would you choose?

**A:** *Lose ₹7000 for sure*

(vs)

**B:** *90% chance to lose ₹7000?*

## Choices

In addition to whatever you own, you are given ₹1 Lakh. You must now choose one of the following option?

**A:** *You have 50% chance to win ₹1 Lakh more*

(vs)

**B:** *You directly get ₹50,000 for sure?*

## Choices

In addition to whatever you own, you are given ₹2 Lakhs. You must now choose one of the following option?

**A:** *You have 50% chance to lose ₹1 Lakh*

(vs)

**B:** *You will lose ₹50,000 for sure?*

# Prospect theory

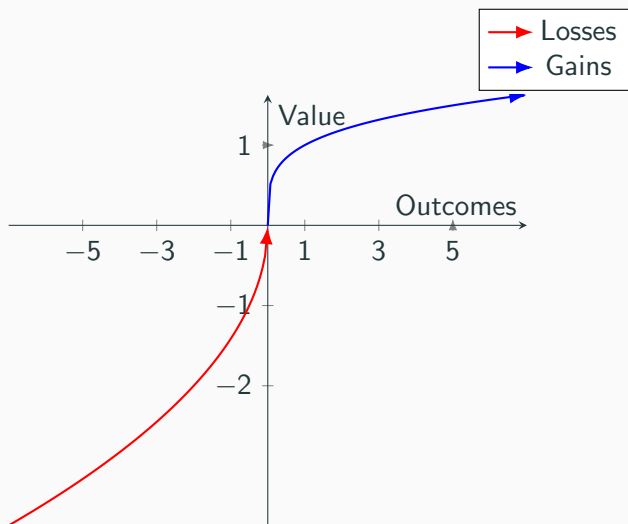
**Prospect theory** can be summed up in two terms.

1. Reference Points matter.
2. Individuals are *loss averse*, no matter what the reference point is.

## Prospect Theory Vs Expected Utility

- The reference point is higher than current wealth by ₹1 Lakh in Option **A** and by ₹2 Lakhs in Option **B**
- So, being richer by ₹1.5 Lakh is considered a gain in Option A and loss in Option B
- Since we emotional towards loss, i.e., *loss averse*, we choose differently when framing is in terms of gains/losses.

# Prospect theory - graph



# Saliience

## Saliience

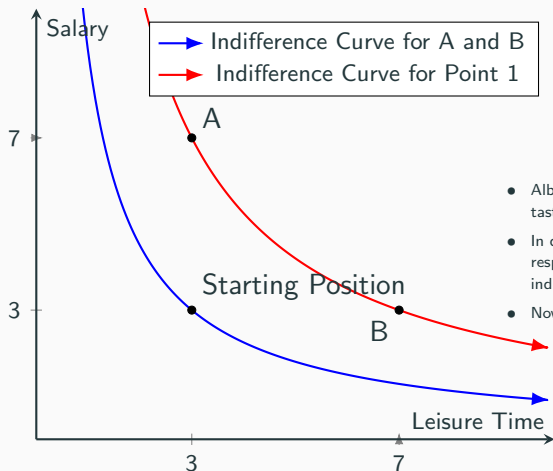
Saliience, whereby information that stands out, is novel, or seems relevant is more likely to affect our thinking and actions. Saliience underlies heuristic judgments that rely on external cues.

# Status Quo Bias

## Status Quo Bias

The preference for things to remain the same, such as a tendency not to change behavior unless the incentive is strong.

# Status Quo bias - Switching Jobs



- Albert and Ben are “hedonic twins” who have identical tastes and currently hold identical starting position 1.
- In due course they settle in a job at A and B respectively (either is happy as they are moving up indifference curves).
- Now, will they swap (switch) jobs

# Introduction to Status Quo Bias

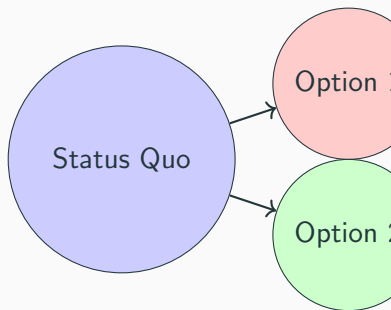
- Status Quo Bias is a cognitive bias that describes people's preference for the current state of affairs.
- Samuelson and Zeckhauser (1988) conducted experiments to demonstrate this bias.
- People tend to stick with the status quo even when better alternatives exist.



status\_quo\_bias.jpg

## Experiments by Samuelson and Zeckhauser

- Participants were given hypothetical scenarios with multiple choices.
- One option was always labeled as the "status quo".
- The experiments showed a significant preference for the status quo.



### Key Findings

- Status quo bias can lead to suboptimal decisions.
- Understanding this bias helps in making better choices.

# Overcoming Status Quo Bias

By communicating what will remain unchanged, change practitioners can leverage the status quo as an anchor and reference point

# Overcoming Status Quo Bias

Example	Communication artefact
1	The on-screen interface that we use for invoicing will be upgraded to a new platform <i>in 8 weeks' time</i> . <i>The new platform removes the need for you to manually record receipt numbers and paper postage, which we know has been a time-consuming inconvenience for some time</i> . <i>While the new on-screen interface differs in appearance, the skills you currently hold and processes you follow with respect to creating, sending, and acquitting an invoice, will fundamentally stay the same, as will the number and name of services that we provide</i> .
2	Today we announce a restructure that impacts our Team Leader level; <i>a restructure that will be fully implemented by the end of this Financial Year</i> . <i>While the Team Leader that you report to may change, the functioning of your job, the tasks that sit within and hours expected etc., will all remain the same</i> . <i>Performance reviews will stay as is, as will our bonus structure</i> .

### Legend:

Black	The change
Green	<i>A compelling reason for change that is of pressing importance – creating urgency</i>
Blue	<i>Promoting consistent elements – utilizing status quo bias</i>

**Figure 9:** Communicating Change

## Caveats and Cautions

1. Using Primes, Anchors, and other stimuli must be based on **ethical** concerns
2. Always guard **against** misinformation and **fear-mongering**

# Conclusion

1. Associative Machine → Priming Memory, Creativity
2. Anchoring → Start Point for negotiations Balanced negotiations
3. Prospect theory → Loss aversion Overcoming Status Quo bias
4. Availability Bias → Group work dynamics
5. Halo effect → Teamwork

## Temporary page!

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