FEATURED ARTICLE

Why Being a Human in The Workplace Is Hard:

Exploration Into a New Dimension of Process Improvement including Behavioral Economics, Lean and Change Management

By Jerry Rosenthal & Jessica McBride

About the Author:

Jerry Rosenthal is the author of "Small Doses: Common Sense to Common Practice." His book is about the intersection of Process Improvement, Leadership and Life. It contains stories and practical wisdom which can be applied immediately. He also occasionally publishes, “Smaller Doses” which are shorter thought pieces about Anchor Points (the before and after) in the space of life, learning and growth.

Jerry is a seasoned continuous improvement leader, a Lean Six Sigma Master Black Belt who has practiced his craft in different areas of healthcare. He also consults in the space of legal operations for law firms and legal departments.

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An experienced process improvement practitioner will start by asking questions like:

- What is the problem you are trying to solve?
- How long has this been a problem?
- For whom is this a problem?
- Can you quantify the problem?
- What is the risk of doing nothing to address the problem?

For the authors, we like to go deeper and ask:

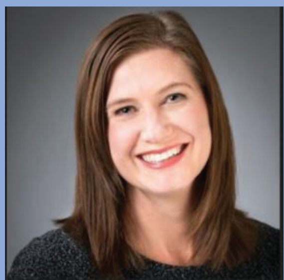
- What other concepts and ideas are out there to help us be better at understanding the current state of a process?

- What might we do differently to create an even better future state?

We’ll start with a story.

It was August of 2017. Our good friend Len had made tremendous strides after he was introduced to the ideas of process improvement, and how to apply them to a commercial environment (e.g., non-manufacturing processes.) If you don’t know or don’t remember Len, we recommend that you review “Paradigm Shift: Achieving Operational Excellence in a Transactional World” from the August 2017 edition of Six Sigma Forum Magazine.

If you haven’t read the article yet, here is a brief summary. Len was processing mortgage applications. More applications were coming in per day than he was able to process. His manager was focused on throughput and volume (aka income for the firm) as the metric or key performance Indicator. More meaningful measurements such as quality were not considered in determining what could be done to improve flow and reduce Len’s stress level.



About the Author:

Jessica McBride is an accomplished Operations Leader and Project Manager with over 20 years of experience in corporate, government and not for profit organizations. She holds a BA in Psychology, an MBA and is a Lean Six Sigma Green Belt. Jessica is passionate about all the things that make us human, even the parts that may be difficult to deal with both in and out of the workplace. She regularly uses the tools of Lean, Six Sigma, Project and Change Management to successfully bring out the very best in people. She is an avid dog lover and spends as much of her time as possible with her animals and husband. You can find Jessica on LinkedIn.

Len learned about some process improvement tools used in manufacturing (Operational Excellence) to improve his processes and influence others in his office. He shared with anyone who would listen how focusing on quality and reducing defects would improve flow and throughput. This in turn would improve income, profit, and importantly, reduce his stress level.

Len also talked about the importance of learning and growth as key elements to not staying complacent and finding ways to improve processes in meaningful ways. To say that learning about these ideas improved his work and personal life would be a monumental understatement.

That was five years ago.

But success only lasts for so long and all of us (including Len) are guilty of becoming too comfortable with the wins of the past. We neglect to do periodic reviews and make small adjustments when value can be added to any process. Because we are human, we become complacent. As Thaler and Sunstein teach us from "Nudge" (2008), it is far easier to continue using our Automatic system to work a process that we are so used to using, it has become habit; rather than engaging our Reflective system to learn something new and feel uncomfortable and vulnerable.

And that is what the authors love most about the space of process improvement. It's not just the tools of Lean, Six Sigma, Theory of Constraints, and the like. It is the lifelong process of learning new ideas across the wide spectrum of disciplines and determining if they apply to our work in meaningful ways.

Behavioral Economics might be that new set of ideas and tools to take our processes to another level.

A Primer on Behavioral Economics: What is it?

Neoclassical economics is a broad theory that focuses on supply and demand as the driving forces behind the production, pricing, and consumption of goods and services.

Neoclassical economics tells us that people will behave in ways that are in their best interest; individuals maximize utility and firms maximize profit.

Example:
Moe finds a great price on his favorite beer and purchases more than his usual one or two cases (an impulse purchase.) Moe thinks he is maximizing his utility by getting more beer for his money and is feeling really good about getting this "great deal."

Behavioral Economics tells us that people do not make decisions that are in their best interest, rather that they are irrational, and that this irrationality is quite often predictable. Human beings are subject to impulsivity and emotion and are highly influenced by their environments or circumstances.

Example:
Moe did not consider how much room he

beer, or that beer has a limited shelf life. Buying more of anything at a great price feels like a good economic decision. Yet a deeper dive and consideration of Behavioral Economics would indicate that this is an irrational and predicable decision which is not in Moe's best interest.

Lean theory and application would say that Moe has made an error by creating inventory, even at a fantastically low price point. Recently with delays and backlogs across international commerce, even the idea of Just-In-Time has been called into question. Moe might be thinking to himself "What if that fantastically priced beer is made overseas and may not be available again for some time?"

Moe purchased the beer impulsively because he was drawn in by the price (environment) and by the fact that for a year he has not been able to find this particular brew due to supply chain issues (circumstances).

So now Moe is sitting on a surplus of beer, his wife can't store the meat she purchased for the week's dinners because the beer is taking up the space in the fridge, arguments ensue, but Moe got a great deal. Would we still contend that Moe acted in his best interests? Probably not.

Behavioral Economics studies the effects of psychological, cognitive, emotional, cultural, and social factors on the decisions of individuals and institutions.

Some examples of Behavioral Economics Include:

- Recency Bias,
- Confirmation Bias and
- Loss Aversion.

Humans are biased by recent information and do not look at the total amount of information available to them or even consider asking for more relevant data to support or disprove their position. This is called recency bias. This then leads to confirmation bias or looking for those data points that only support one's position.

Humans are loss averse which means that losses are avoided more than equivalent gains are sought. People fall in love with things they already have, placing higher value on them than what the actual value and market price might be.

Humans are affected by bounded willpower. Which is the idea that even given an understanding of the optimal choice, humans will often still choose whatever brings the most short-term benefit

And as with Moe's beer, there is the sunk cost fallacy that says that if I bought all this beer then I better drink it or give it away and not let it go to waste.

There are many more, some of which we'll address in this thought piece.

So, what does any of this have to do with Lean?

Let's say our hero, Len, has a new manager, Nancee, a brilliant woman who has a background in Psychology, Behavioral Economics and Lean. She wants to partner with Len to look at his mortgage application processes again, introduce him to some of these Behavioral Economics ideas, and help him to identify his own biases and challenges. She feels there are opportunities that will create less waste, increase throughput, and ultimately increase profits for the firm.

Len is furious! He is insulted! How dare anyone imply that his precious processes could be improved. The reader may feel that this is an overreaction to a simple request, but Len is not alone. Len is human and he is suffering from the affliction that all humans suffer from – those ever present and pesky emotions. These emotions feed the psychological, cognitive, emotional, cultural, and social factors that define **Behavioral Economics.**

Loss Aversion

"Our aversion to loss is a strong emotion...one that sometimes causes us to make bad decisions." – Dan Ariely

Humans fall in love with things they own. Len fell in love with his processes. He designed them, therefore feels a special ownership of them and places a higher value on the processes than any newcomer to the company would. When asked to re-visit the processes and potentially modify or ditch them entirely (gasp!) Len focused on what he may lose, rather than what he may gain. We see examples of this time and time again in the workplace. Leaders not wanting to give up their "baby" no matter how ugly. The process may have served a purpose at one time but has become outdated as the organization grows and technology changes and becomes more cost effective.

No one intentionally designs a bad process. But as time passes, a process may no longer be fit for purpose. If Len can recognize his loss aversion and Nancee can help him see what he may gain (accolades, profits, subsequent bonuses, or simply the opportunity to gain knowledge from another leader) then he may be able to overcome this Behavioral Economics circumstance and continue practicing Lean to the best of his ability.

Consider this: How can recognition of loss aversion help us to be more nimble in executing lean processes?

Framing

Framing is another Behavioral Economics concept that is likely affecting Len's willingness to partner with Nancee. This time, it is a lesson for Nancee. When Nancee approached Len, she said:

"Len, I think there are some things we can change about these processes to make them better and positively affect our bottom line."

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By saying it this way, Len heard "There's something wrong with your precious processes."

Framing is all in the way something is initially presented. The same situation can be presented in two or more different ways; but mean the same thing.

Only one will elicit the desired reaction.

Here's a simple example of framing. A patient goes to a doctor to seek guidance on an ailment requiring surgery. A doctor could advise of 90% survival rate or 10% chance of dying. Those are exactly the same; but framing it one way leaves the patient with a much more positive outlook.

Once Len hears that his baby is ugly, he will have a difficult time hearing anything else because he's so emotionally wrapped up in the perceived insult. What Nancee could have done better was to frame the request in a way that Len would feel like the hero he is.

"Len, these processes are awesome, I can see the gains you've made for yourself and the company over the last five years. I'd love to partner with you and learn more about how you did this. Maybe by taking a look together we can find even more opportunities that our bosses will love."

We aren't saying this works every time, but it doesn't hurt and can certainly help with creating a more positive outlook.

Consider this: How can framing things differently change the way you and others perceive processes and open doors to doing things differently?

Anchoring

In Behavioral Economics, Anchoring is the point at which all other discussions and negotiations are referred to or compared to as the fixed reference point; sometimes forever.

Anchoring bias is a cognitive bias that causes us to rely too heavily on the first piece of information we are given about a topic. When we are setting plans or making estimates about something, we interpret newer information from the reference point of our anchor, instead of seeing it objectively.

Here's a simple example of anchoring. We go to buy a new car and the salesperson gives a "great" price because we've expressed interest and the salesperson "really likes us." That number is the anchor to which all further negotiations are referenced.

In the case of Len, he may be anchored in his processing of twenty-four applications per day and no one, until Nancee has challenged him to do more. To get Len to re-examine his processes, Len will have to identify a new anchor, or at the very least, recognize his bias towards this original anchor.

Consider this: Where do you see anchors in your own work or in your work environment? How are these anchors holding you and your organization from realizing or reaching its larger potential? How is this creating a self-limiting view of your work or life?

Now What?

It's our hope that you found this thought piece intriguing and are curious to know more.

The authors are not advocates of adding more tools to our collective toolbox which have no value. At our Lean core, it's all about the fundamentals and mastering that set of lean tools. Behavioral Economics gives you another lens to consider while working with your teams. Lean practitioners will never be able to fully de-bias anyone. Yet we can become more aware that perspectives exist which may not have been arrived at through rational means.

Using tools already within the Lean toolbox such as the 5-Whys, Fishbone, and Iceberg to engage in Structured Problem Solving and understanding Root Cause; yield beneficial results And no doubt, Behavioral Economics in one form or another has played a role in arriving at the current state of any process and will have a stronghold on it as the team seeks to create an enhanced future state.

In part 2 of this series, we will consider the Change Management aspect of Behavioral Economics. How might we use these concepts to better understand stakeholders, process owners and doers and bring them along the change curve more quickly through recognition of biases and other rational and irrational decisions made throughout the history of any organization.

Behavioral Economics is a new frontier in the space of culture transformation and process improvement. And like the title of this article says, it's hard being human in the workplace. These ideas might make things just a bit easier.

Follow us on LinkedIn and join in on the conversation. We welcome your thoughts and challenges as we continue to experiment with these ideas. We look forward to hearing and learning from you.

Jerry Rosenthal & Jessica McBride

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