FEATURED ARTICLE

Change Management Through the Lens of Behavioral Economics: A Continuation of Why Being a Human in the Workplace is Hard

By Jerry Rosenthal & Jessica McBride

About the Author:

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In part one of this series (ASQ LED Publication: July 20, 2022), we discussed the difference between classical and behavioral economics. In classical economics, humans make perfect and predictable decisions. Economists call these people "Econs." In reality, Econs do not exist. In the space of behavioral economics, we accept that humans are imperfect and that we make irrational decisions based on a wide variety of factors. And these irrational decisions impact our processes and our ability to see when things aren't going as well as they could.

We shared a few of the biases that pervade the work we do as practitioners of process improvement. We talked about ownership, loss aversion, framing and anchoring as some foundational elements to consider through the various lenses of Behavioral Economics.

Now that we have an awareness of these new concepts, what do we do with this newly found connection between behavioral economics and process improvement? And how can any of this help us be more successful at influencing change?

In this article, we will dig a bit deeper into the links between behavioral economics, change management, and process improvement, as well as give some practical tips to help guide yourself and your fellow humans through the emotions of change.

A Primer on Change Management

One might think of change management as a modern business buzz word and simply a "nice to have." These authors would argue that change management is a MUST have for any process improvement engagement or project. So, what is it? Prosci, one of the leading suppliers of change management research and training, defines change management as "the application of a structured process and set of tools for leading the people side of change to achieve a desired outcome."

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Quite simply, it is bringing the HUMANS affected by the change along for the entire journey -- not just at the end. Prosci research tells us that projects with excellent change management have a 93% success rate versus projects with poor change management yielding only a 15% success rate.

Consider this: How many times in your professional career have you found out about a change the same day you were being trained to do this new thing? How did this make you feel? Were you bought into the change? Did you feel ownership or even a hint of desire for the change? Likely not. You probably felt resistant, even just on principle.

“Seriously? You’re telling me to do this new thing without even asking me if I think it will work? I’m the one that does this every day. Management is so out of touch.”

At one organization the authors are familiar with, management decided that moving certain departments currently on different floors to the same floor was a good idea. In fact, it was a great idea. It made sense because it saved money on leased space, and it put teams which interacted regularly in closer contact with each other, making day-to-day functions easier and more effective. Unfortunately, management didn’t let any of the employees in on this great plan. What they did do was come in on a Wednesday with boxes and tell everyone they had a day to pack up all their stuff and needed to be ready to work as usual on Thursday.

You probably don’t have to imagine for very long how this went over.

This example is a failure of change management. It also has elements of behavioral economics such as loss aversion, anchoring, and framing. What the employees felt when told to move was the loss of their personal space, their daily routine, and in some cases their dignity (seeing management cart boxes in typically invokes feelings of fear or panic). The employees could not see the positives of this move because of the way it was framed for them, and the complete lack of consideration given to their feelings and emotions.

It should be noted that when the authors were told this story, it had been a full five years since that incident had occurred. The employees were STILL upset and their trust in management had not yet been mended. The moral of this story:
Never underestimate the power of emotions and why being a human in the workplace is hard.

Behavioral Economics and Change

“Ownership pervades our lives and, in a strange way, shapes many of the things we do.” - Dan Ariely
Most often, we assume people will see the problem from the same perspective that we do (False Consensus Effect.) As leaders of change (and let’s face it, process improvement IS change), we must seek to understand the other’s perspective in order to find that lever to pull to move that person to the perspective we want them to see. We want to help them move to the right solution.

In the example of Len (see Part One of this series), we’ve already established that he examined and improved his process five years ago which led to great results for his company and for him personally.

Sticking with that formula should only garner those same results, right? It is natural that Len would be resistant (or scared) to change any of this.

In order to win Len over and get him to buy in to this idea, his new manager, Nancee, needs to dive below the surface to get at the heart of his motivations.

What does Len value at work and outside of work? Let's face it – even those who are extremely adept at compartmentalization still work from core values and beliefs. What are those for Len? How can Nancee tap into those values to help augment his behaviors?

What is Len thinking and feeling about having a new boss? Since Len is a human, He is probably a bit anxious. Nancee seems like a nice person who knows what she is talking about, but what if she's not? What if her motivations aren't pure?

A helpful way to think about this concept is to picture an iceberg (Figure 1). If we are navigating the waters of humanity, imagine all humans are an iceberg. Even if you've never traveled to the Arctic yourself, you know that from our comfortable ship, we can only see the tips of icebergs. We reasonably know that there is a huge mass of ice underneath the surface of the water. This is part of what makes cruising through the Arctic (and the workplace) so dangerous.

It is our job as practitioners of process improvement to dig under the surface and try to understand the mass underneath, in order to influence what we are experiencing above. This is analogous to seeking the proper root cause when a process does not perform as expected. It's not about blame. It's about understanding at a deeper level.

Figure 1. The iceberg model of change. Source: https://www.coaching.net.nz/

So how does Nancee do this? She's on a deadline too and doesn't have a year to get to know all of the parts of Len. This is the fine dance of lean, behavioral economics, and change management. A year from now we can hope that Nancee and Len have built enough of a rapport and trust that they can talk about these things openly without thinking about it. But for now, Nancee will need to reveal some of her iceberg to Len. She'll need to share her motivations for wanting this process change. Perhaps she'll share some of her emotions, values, or beliefs to help build that trust and rapport. That may allow Len to see that Nancee is only asking for this process to be re-examined for the noblest of reasons.

An example may be: "Len I'm so honored and excited to be working here at this company, but I'm also a little nervous. There are a lot of smart people here and I'm one of only two women on the executive staff. I really want a win for this department, and I think you are the person to help with that." After "breaking the ice" and helping Len to feel on equal footing with Nancee, she can continue to dip below the surface to better understand Len's core values and beliefs.

One great thing about these concepts is that we don't need to add more tools or frameworks to our toolbox. We can use lean tools we are already familiar with such as structured problem solving and root cause analysis to learn more about Len's iceberg.

Here's an example:

Why did Len have a bias towards this way of thinking and his current process?

- Because he found success with it five years ago.

Why was that important?

- Because he was at a turning point in his career and the success gave him a leg up and a boost of confidence.

Why was that confidence a motivating factor for Len?

- Because he'd always been the shy kid in school and was made fun of, which led to less than stellar confidence. He can hang his hat on doing this process well.

Astute process improvement specialists will also recognize the anchoring bias in our first why. The success Len found five years ago led to him anchoring on processing 24 applications per day. He was all too human in this instance. If Nancee can help Len loosen his grip on this anchor and see the potential for processing 30 applications per day, she will be well on the way towards the improvement she seeks.

Remembering that she doesn't have a year to get to know ALL sides of Len, Nancee has to be able to quickly identify where Len is on the change curve and help him navigate those ever present and pesky emotions. Through all of this, Nancee is using the skills she's built as a leader in change management and behavioral economics. She needs to move him swiftly from the left side of the Change Management Curve to the right.

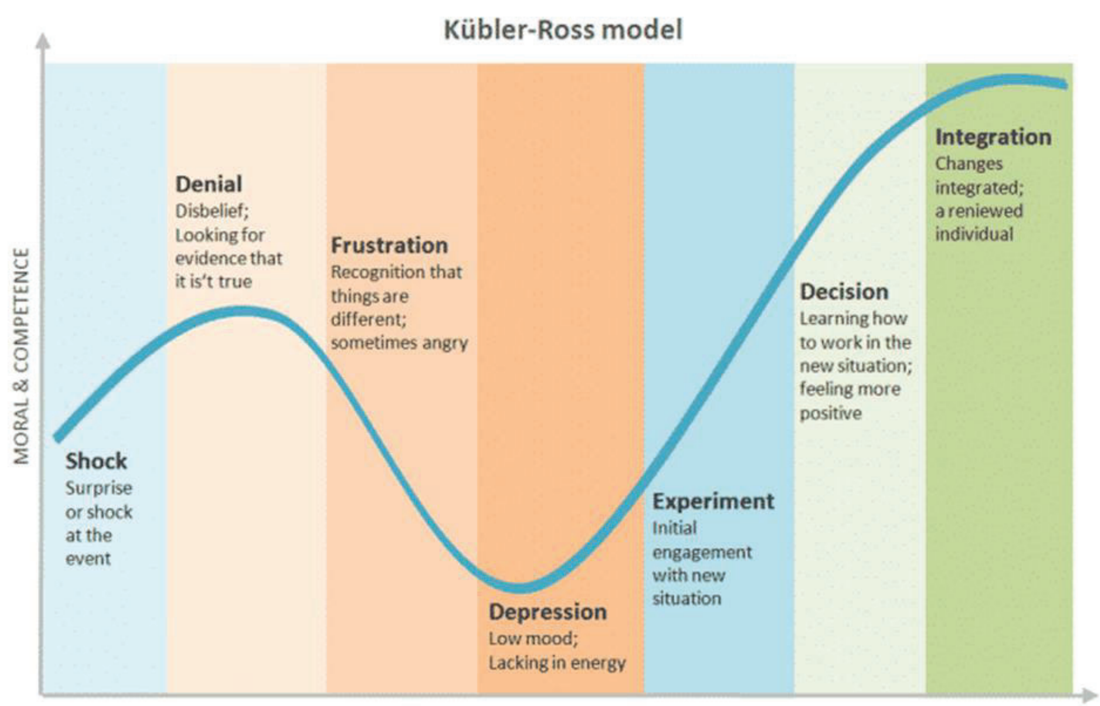

Figure 2. Kübler-Ross model. Source: https://www.cleverism.com/understanding-kubler-ross-change-curve/

Nancee is also navigating through her own biases and blind spots. For example, the aptly named bias "Blind Spot Bias" is where we fail to see our own cognitive biases. "Sure, other people might be irrational, but I'm not!" Yes, you are. We all are.

How can Nancee combat her own innate biases while also guiding Len through this change? These authors suggest Awareness. Make your stakeholders (in this case Len), aware of the change. Then you can start to build desire for the change.

Note: This would have been a great first step for our managers coordinating the office move as well.

Nancy is a step ahead because she has the desire for the change already (as it was her idea), and she's been diligently practicing being aware of her own biases to this and other processes. Now she can parlay that into motivating Len to do the same.

In addition to stakeholder awareness, there is also the important concept of Self-Awareness. Physicist Richard Feynman (Nobel Prize winner in Physics in 1965) had some guiding principles. The first principle is that you must not fool yourself, and you are the easiest person to fool. One way we fool ourselves is by imagining that we know more than we do; we think we are experts. Yet, there are many ways in which we fool ourselves simply by a lack of self-awareness.

How many of us are really aware of what we think, why we hold a certain perspective, and why we are resistant to change our view in light of new information? We are all guilty of clouded judgement due to Confirmation Bias and Availability Bias.

Confirmation Bias is the tendency to interpret new evidence as confirmation of one's existing beliefs and theories.

Availability Bias is the tendency to rely on information that comes readily to mind when evaluating situations and making decisions.

Now back to the beginning, we have Len who is anchored in processing 24 applications per day. He, like all humans, reveals only the tip of his iceberg at work. He is traveling along the change curve in various stages when it comes to how he feels about his new manager Nancee, and the "improvements" she is asking him to make.

We have Nancee, new manager to Len and looking to prove herself in this position and increase outputs for her team.

How can we get these two humans aligned?

If this were an easy task, everyone would do it with ease and we wouldn't be talking about the different and complex aspects of change management. Being a human in the workplace is hard and change is one of, if not the hardest aspect of one's professional journey. To further complicate, there is no one magic answer for this scenario, or other similar scenarios you've likely encountered during your career.

We suggest starting with Awareness (both self and situational) and consider all biases to be what we call a "Lens;" a way of looking at a situation through specific criteria. It takes some practice, yet what it will do is allow you, Nancee, or anyone else involved, to consider and ask better questions to gain a deeper understanding of both the human and the situation (people and process.)

So, what influence does Behavioral Economics have on Change Management?

As we've stated, quite often, change is one of the most difficult aspects of the work we do in the domain of process improvement. Bringing people along for the ride is more easily said than done. There is a direct financial impact which is about getting from A to B in the most efficient way possible. Yet there is a human cost when there is resistance, lack of clarity, and various biases at play. And people are operating in both an existing way and transitioning to a new way simultaneously. Speed is important and moving things too quickly or too slowly has consequences. Behavioral Economics is a key tool in understanding the financial and human costs concurrently.

Here are a few other biases to consider. This is not a comprehensive list of all biases. The authors labeled and chose these based on their own experience and utility. Consider using these as a starting point for your journey.

More Labor Bias: How often do our leaders default to a position of the need to hire more people as the path to solve process delays? What are the consequences of adding more labor without full comprehension of current state and root causes? Using the Lens of "More Labor Bias" and thinking through what has happened in the past and what could happen in the future is a good starting point. Notice we have not talked about Nancee hiring more people to work alongside Len. We are operating under the assumption that Nancee is aware of this bias and is steadfastly avoiding it at this time.

The Calculus of Value: Humans overvalue (overestimate) what we have, what we know, and what we believe. And we undervalue (underestimate) the opposite. For example, Dan Ariely has stated that managers overvalue proactive participation in group settings and undervalue quiet people. Many of us can relate to this type of experience almost daily. How can we be more aware of this when leading groups, and give opportunities for less extroverted employees to add value comfortably?

Magic Bullet Bias: Technology will fix everything.

Technology can fix a lot, but if your process is garbage, it will likely not fix what is broken. People and process is nearly always the place to start.

So now what?

We've shared some biases to proactively consider when reviewing a process and determining ways to implement change. Think about them. Practice them. Challenge them.

And of course, reach out to us. Share your stories and examples. Let us learn from you so that we can all become better practitioners in this space.

And remember - change is hard and being a human in the workplace is hard. Those of us who find ways of reducing resistance will be the ones who facilitate transformation for serving both internal and external customers wherever possible.

We look forward to continuing this journey with you!

Jerry Rosenthal & Jessica McBride

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