

The Future of Work podcast is a weekly show where Jacob has in-depth conversations with senior level executives, business leaders, and bestselling authors around the world on the future of work and the future in general. Topics cover everything from AI and automation to the gig economy to big data to the future of learning and everything in between. Each episode explores a new topic and features a special guest.

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Jacob Morgan: Hello, everyone. Welcome to another episode of The Future of Work Podcast. My guest today is Jordan Birnbaum. He's the VP and Chief Behavioral Economist over at ADP. Jordan, thanks for joining me.

Jordan Birnbaum: Thanks so much for having me. I'm looking forward to it.

Jacob Morgan: Yeah, me too. I'm super interested in this theme of behavioral economics, because when I was at UC Santa Cruz, I actually hosted ... I was double majoring in economics and psychology.

Jordan Birnbaum: Oh, good. Makes sense.

Jacob Morgan: Yeah, [00:00:30] exactly. I thought it would be fun to bring together some of my finance professors and some of my psychology professors together, and we had like a panel discussion around economics and behavior. So, I'm super fascinated with this whole space, so I have tons of questions for you. But as is tradition on the podcast, before we get into that, I have to ask you about you. How did you get involved in all this stuff, and [00:01:00] what is a typical day like for you over at ADP?

Jordan Birnbaum: Oh my gosh, I'm afraid that if I answer those questions in full, we'll get to the end of the podcast, so I'll do my best to think and speak in bullet points. My career has been very unusual, other than the fact that it's always been in startups, up until now. My first job out of school was a startup in finance, and then I was in the right place at the right time [00:01:30] to be involved in a startup during internet 1.0 in the mid-90s. That was a lot of fun. It was a company called Juno Online Services, so I cut a lot of my entrepreneurial teeth in that experience.

From there, I decided to launch my own company, which brought me to L.A. for a decade. I housed a media production studio inside a live music venue. It was called The Vanguard, and it was [00:02:00] exceptionally fun, and we had a lot of terrific adventures, but there's actually a unifying thread throughout all of this. When I was training some of my security guards at Vanguard, I realized how similar the experience was to training salespeople at Juno, despite the fact that the context could not have been more different.

I started to realize that really all I was trying to get people to do was to care. [00:02:30] Somehow from that realization, my fascination with the concept of intrinsic motivation started to grow and to say I became obsessed would probably be just only slightly of an overstatement. So when I sold The Vanguard, I decided to go back to school to get my master's degree in industrial and organizational psychology. It's through that lens that I discovered and approached behavioral [00:03:00] economics.

For people who aren't familiar with the terminology, industrial and organizational psychology is really the psychology of work, what happens in the workplace, both in terms of what kinds of processes are most impactful to what kinds of emotional experiences for employees affect organizational wellness? From my perspective, before we start to talk about what is behavioral [00:03:30] economics, I think that I/O psychology is essentially the practice of behavioral economics in the workplace.

That's how I discovered it. From learning about motivation and leadership from a psychology perspective, I began to consume everything ever written about behavioral economics, and taking crazy amounts of notes so that I could start building a master list of every principle imaginable. I [00:04:00] decided that my practice was going to be figuring out ways to use some interesting behavioral economics principles to solve current problems in the workplace. There's your short answer, and I use the word short very tongue-in-cheek.

- Jacob Morgan: Do you by any chance have this master list? Is it like an Excel spreadsheet? I personally would love to see this list. I don't know if you have it available somewhere, or if it's like your secret stash?
- Jordan Birnbaum: It is absolutely [00:04:30] my secret stash, and it's written in language that only I would understand. But what I can say is that if you go to Wikipedia and you type in the word cognitive biases, there is the most wonderful visual that someone created, that basically outlines every cognitive bias known to man. In some ways, if you wanted to try this practice, you could probably use that diagram.
- Jacob Morgan: I remember reading a book [00:05:00] when I was studying psychology at UC Santa Cruz, and I don't know if this is similar to what you're talking about. I think it was Robert Cialdini's.
- Jordan Birnbaum: Influence.
- Jacob Morgan: Yes, and he had, was it like 80 techniques? It was like 80 or 100 techniques. It was a crazy long list. I'm sure I still have that book. I've got to look it up.
- Jordan Birnbaum: I would say that Cialdini is one of the founders of behavioral economics movement, and certainly if I was encouraging people to learn about behavioral economics, [00:05:30] Influence would certainly be on the list of must-reads.

Jacob Morgan: Okay. I'm going to go dig up that book and go through some of that stuff.

Jordan Birnbaum: Cool.

Jacob Morgan: What's a typical day like for you? Are you up at 5:00, 6:00 in the morning, go to the gym before work? Is it a usual kind of workday like everyone else has?

Jordan Birnbaum: Yeah, I think so. It's not too unusual, except that I tend to work at after work, instead of before because I'm not that much of a morning person. But typically, what's interesting [00:06:00] is that my days are very different depending on what stage of a product we're in. Basically, my main focus at work is building software tools to help drive some kind of positive outcome in the workforce. My specific task is to figure out how to incorporate behavioral economics and applied psychology in ways that will nudge people towards positive behaviors [00:06:30] and have meaningful outcomes.

Sometimes when we're deep in the development mode, a lot of my work is in designing products, but then once we've built it, a lot of my work shifts to how do we communicate and introduce the products to people, and make sure that they are framed in the right way right upfront so that we have the best chance of having success. The really good news is that we've had some significant [00:07:00] success with some of our initiatives, which we can talk about later.

Jacob Morgan: Yeah, for sure. For people that are not familiar with ADP, maybe you can give us a little bit of context around the company, how big is it, what do you guys do?

Jordan Birnbaum: ADP, it's a really interesting story. It has a lot of layers to the answer, but ADP has been around since the 1950s. It is a Fortune 500 company with 50,000 employees worldwide, and [00:07:30] about 5,000 leaders across the globe. ADP, which stands for Automatic Data Processing, began primarily as a payroll company. ADP was the organization that you would set up your payroll with, they would take care of all your tax and compliance issues. They automated it, and they grew to be massive, and still are to this day. In fact, one out of every six people in the United States gets paid by ADP, just [00:08:00] to give you a sense of the scale of it.

Jacob Morgan: Wow, that's a lot of people.

Jordan Birnbaum: Yeah. It's a big organization that has stayed relevant for an incredibly long time, which is something that I find very inspiring. Part of how they have managed to stay relevant has been to adapt and evolve, and to be very proactive and looking down the road. At this point, what I think ADP has begun to realize is that [00:08:30] the art of providing payroll, or the science of providing payroll is more appropriate to say has become somewhat commoditized. We have to think about how can we start creating new types of value for our clients, and we have literally hundreds of thousands of them.

One of the areas where we've decided that we can make a big difference is in helping with what we call talent activation. At a higher [00:09:00] level, we look at human capital management and talent management systems historically as primarily serving HR and serving the organization. But we think that there's the opportunity to instead focus on leaders and teams, and try to help them perform at their best and try to give them what they need to be most engaged. We refer to that generally as talent activation, which means how do we get the most out [00:09:30] of your talent?

That's been the area that I've been focused on the most. It's been very exciting, because having had the experience of working in startups where you live with uncertainty about how you're going to pay the electric bill tomorrow, it's been such a different and wonderful experience to be in a position where we're experiencing all the flexibility of a startup and building these products, but without the pressure [00:10:00] of knowing whether or not there's going to be an office tomorrow.

Jacob Morgan: That's always nice.

Jordan Birnbaum: I have to say I feel really lucky.

Jacob Morgan: Yeah, that's always a nice feeling. Okay, so how can ... I have a couple of specific techniques that we can look at, but how does behavioral economics apply to the world of motivation or to work? I know you guys released a report and I read a couple of articles that you put together where you talked about things like framing, and priming, and loss aversion, [00:10:30] and this notion of availability. But maybe from a very high level before we jump into some of those techniques, why do you think behavioral economics is so important for us to understand, not just as HR leaders, but maybe just as managers in general? What is the connecting force inside of our companies?

Jordan Birnbaum: My new favorite way to articulate behavioral economics is that we're putting would in front of should. What I mean [00:11:00] by that is that oftentimes when leaders or HR practitioners are considering how to structure a communication or how to build a program to describe some kind of behavior, they often think in terms of how should people react to this? How should people choose to behave? The should is always being driven by a concept of rational self-interest.

The problem is that human beings are not always rational. [00:11:30] In fact, we're quite often textbook irrational. Rather than thinking about how human beings should respond to whatever it is we're trying to conceptualize, behavioral economics tells us to focus on how people would actually respond. I would say that the idea of behavioral economics is to improve the predictions of human reactions to just [00:12:00] about anything.

That's how behavioral economics really differs from classical economics. Now, it's a mistake to think when we say that behavioral economics is more accurate in predicting human behavior, to think that that is somehow disparaging to classical economics, because it isn't. Being able to define the should is crucial to being able to build sustainable models. So the role that classical economics plays in helping us chart out [00:12:30] rational self-interest cannot be overvalued. But when it comes to thinking about practical realities on the ground, in fact, we've started to learn that human beings are not only often irrational, but predicatively so and consistently so.

If we can begin to understand what some of those consistent irrational reactions might be, then we can start to better plan for how people will react to what we're [00:13:00] putting out there. It turns out that from a strategic perspective, anticipating how people would react instead of how they should react leads to much better outcomes.

Jacob Morgan: Do you have any examples of the should versus would? Perhaps, I don't know, what's an example of maybe something where a company or an HR team has put something together where they think somebody should react a certain way, but the way that they actually react is different, just to kind of compare the should versus would?

Jordan Birnbaum: [00:13:30] Absolutely. I think that one of the gray areas of successful behavioral economics actually has to do with retirement savings. When companies are putting together 401(k) plans, they oftentimes will create packages that are very clearly in their employees' best interest to participate. What they think to themselves is clearly the employees should select to participate in the 401(k) [00:14:00] program, and they're adults and we want to give them free choice, so therefore, we're going to roll out and say, "Okay, this is the 401(k) program that you're able to sign up for. To do so, please click this button below."

Now, they think that they've given their employees a very clear choice of what they should do, but unfortunately, what people would do in [00:14:30] that scenario, it turns out, is go with whatever the status quo is. If people were not already signed up to participate in 401(k) plans, they ended up not signing up to participate and not saving towards their retirement. Behavioral economists came along and said, "Look, let's stop assuming that people should make this choice, and instead, create and structure the choice in a way that they would do it."

[00:15:00] How this problem was tackled was with something as simple as the default option. Now, the default option describes whatever happens when you don't do anything. For example, when you buy a new computer and you're getting it started for the first time, it will often come with default settings that you can customize if you like, but most of the time we just say accept and we move on.

So default [00:15:30] is what happens when we don't make a proactive change. What people have been doing prior to the rise of behavioral economics is defaulting people with an opt-in choice for 401(k) savings, saying if you want to participate in this 401(k), click this box here. But behavioral economists knew that people are heavily impacted by the status quo bias, and left to our own devices, more often than not when we're presented [00:16:00] with a choice or a decision, we choose to do nothing.

They thought to themselves, how can we maintain the freedom of choice, but still nudge people into making the best decision for themselves and saving for their retirement? The switch was an opt-out. Now suddenly when employees were presented with their 401(k) options, the answer was, "If you do not want to participate in our 401(k), then click this box." That simple [00:16:30] change had a massive impact on people's participation rates in their 401(k).

One study that comes to mind right off the top was done by Fidelity, and it was looking at people aged 20 to 30, so in other words, the people least likely to save for retirement. What they found was that when participating in a 401(k) was opt-in, they got about a 20% participation rate, but when [00:17:00] participating in a 401(k) plan was opt-out, they got an 80% participation rate. It just goes to show you how powerful the design of the choice can be in shaping the outcomes.

Jacob Morgan:

Yeah. No, I think that's a fantastic example. I wonder, I feel like a lot of times we struggle with this. We offer like leadership training and then we find out that nobody takes it. We want to redesign new workspaces and then people complain that [00:17:30] they don't like them. We introduce new technology that's supposed to be amazing and wonderful, and people don't use it.

Can some of this be applied to that stuff as well? It seems like in most companies, we try to give things that we think employees should use, but they don't. I'm really interested in, do you think some of this can be applied to that as well, like getting people to participate in a leadership training program, or to kind of embrace [00:18:00] change inside of their organizations?

Jordan Birnbaum:

What I think is really cool about the question is that it demonstrates sort of the nuance of the subject, because yes, I think that that is absolutely an accurate assessment of some of the places where things go wrong, because we are thinking about should instead of would behind so many different kinds of corporate initiatives. But that to me is looking [00:18:30] at work from the strategic behavioral lens.

The other level is the tactical behavioral lens, where you start to say okay, I know that human beings are prone to feeling this about that, therefore, I can use that to lead to X outcome. I think that the answer to your question is absolutely, but it's also a really nuanced example of how you can learn from the approach of behavioral economics [00:19:00] and then apply that to so many

different real world problems, just to identify where you have an opportunity to make a difference.

Jacob Morgan: Fair enough. Yeah, and we'll definitely get into looking at some of those things in a minute. You mentioned earlier that some behaviors are irrational and even like predictably irrational, and that there might be some consistent behaviors. Are you aware of any consistent irrational behaviors off the top of your head that we might exhibit inside of our organizations [00:19:30] that we should be aware of?

Jordan Birnbaum: Yeah, well, there's two that come to mind right off the bat. One that I just think is funny, and one that is really interesting. The funny one is planning fallacy. I think that we all chuckle about it because we all do it, which is that human beings, we have a propensity to dramatically underestimate how long it's going to take us to accomplish something or to finish a report, whatever it might be.

There's all sorts of interesting [00:20:00] questions about why we might do that. Does it serve us in some way emotionally? Does it make us feel safer? Does it make us feel better about what's ahead of us or not as fearful because we don't want to really think about what it's going to take? I don't have the answers to that. All I know is that we know that human beings make this mistake all the time.

From a work perspective, I would say that anytime any kind of planning is happening, that [00:20:30] there is some kind of constant effort to make sure that projections, the first time they come out that we realize that we're all vastly underestimating just about everything. I would say that anybody who's ever dealt with any kind of construction or real estate development will tell you everything takes twice as long and costs twice as much, and that's if you're lucky.

Jacob Morgan: That's true.

Jordan Birnbaum: That's the funny one. Sorry about that.

Jacob Morgan: No, no, no, I was saying that's absolutely true.

Jordan Birnbaum: Yeah. [00:21:00] But the more interesting one is one of my favorite and it comes from two of my heroes, Daniel Kahneman and Amos Tversky. It's this construct called loss aversion. It turns out that human beings are twice as motivated to avoid a loss as we are to secure a gain. The prospect of losing \$100, avoiding that is twice as motivating as the prospect of gaining \$100. [00:21:30] That really isn't perfectly rational. We should have the same motivation to secure gains and losses. \$100 is \$100 whether we gained it or we lost it, and yet the impact of gaining it is only half as powerful.

That's an example. It also explains why whenever athletes or coaches are asked, they all say that they hate losing more than they like winning, because that's how human beings are wired. It's just [00:22:00] an interesting little work. Again, you could probably go back through evolutionary theory to sort of track where this came from, that maybe a certain degree of cautiousness amongst our cave-dwelling ancestors proved quite prudent, and so a particularly conservative aspect of humanity thrived and led us here.

Again, that's more speculation. The only thing that we know through clever experimentation is that it's definitely true. [00:22:30] The question becomes, well, how could you use that in an organization to drive the intended outcomes? That's where we can start getting kind of fun and creative.

Jacob Morgan:

Yeah. I definitely remember the loss aversion example from a psychology course. I always thought that was pretty interesting as well. All right, so we talked a little bit about loss aversion. Well, maybe we can apply some of these things into practical [00:23:00] examples. So loss aversion basically this notion that we're more motivated to avoid loss for securing gain.

Let's say people listening to this, managers, leaders, even people in HR, they're responsible for others. They have a team, how can they apply this notion of loss aversion in their teams? Is it how they communicate certain things around project? Is it performance reviews? How do you apply this into something practical inside your company?

Jordan Birnbaum:

Oh gosh, there are so many different ways. One [00:23:30] example is just through communications. This is one that's actually particularly relevant for me and one of the products that we're talking about now, but let's say we're trying to drive participation in leadership development programs, which is something that you mentioned earlier.

There are two different sentences that we can use to try to incentivize our leaders to participate. Sentence one goes something like this, "Consider [00:24:00] all the career advancement that you stand to gain if you were to improve as a leader." Sentence two goes like this, "Consider all the career advancement that you stand to lose if you don't improve as a leader." Somehow by changing just two words makes the second sentence twice as motivating as the first.

Understanding how to frame things relative to what we stand to lose as opposed to what we stand to gain [00:24:30] can oftentimes be the difference between success and failure. One constant struggle within organizations is always changed management. The point would be that when you're talking about why a change is necessary, and you're trying to drive participation, you can choose to focus on what you stand to gain by making the change or you can choose to focus on what you stand to lose by not making the change.

It turns out that people would be much more motivated by the prospect [00:25:00] of losing their jobs due to operational efficiencies than they would be motivated to improve performance efficiencies. Now, of course I'm not suggesting that people be threatened with their job security if they don't drive the change, but the point that I'm making is that sort of framing the outcomes relative to something we stand to lose versus something we stand to gain can have a really big impact on how it's perceived and processed by our teams.

Jacob Morgan: [00:25:30] Interesting. I like that. I think I can even apply that. It seems like we can even apply that to marketing, right, to how we sell things, to how we create even landing pages and build websites. It's just that kind of framing in general I think is pretty helpful for us.

Jordan Birnbaum: It's funny that you say that because I have to say that one of the things that I often have to admit with behavioral economics is if you watched Mad Men, you got the sense that they were doing all that stuff back in [00:26:00] the '50s and nobody was calling it behavioral economics, and I totally agree with that. What I would say is that there has been a shift where we've taken this use of applied psychology from just driving marketing outcomes and customer related outcomes.

But what we've started to see as data has helped us understand what's really going on in our organizations, why are we using these techniques to drive that kind of engagement and enthusiasm amongst our own [00:26:30] employees? I think that while these tactics have been proven out in the marketplace through ads, we're now realizing that we can drive and influence by using the same tactics and helping employees start to make the best choices that they can for themselves and for the organizations.

Yes, you're absolutely right. It has been part of advertising for a while and an important part of customer acquisition strategies, but now [00:27:00] it's more scientific. The research is broader and a little more systematic, and we're starting to realize that this stuff is applicable everywhere, not just through 30 second advertisements.

Jacob Morgan: I think we're seeing that across the board, a lot of the things that we do for customers as far as like journey mapping and customer experiences, and all these psychological techniques we use in selling stuff. A lot of it is now being turned internally towards our employees, and now we're talking about employee journey maps, and employee [00:27:30] experiences, and all this other stuff.

I think it only makes sense that this is going to be applied inward as well, which I think is quite interesting. All right, so we talked a little bit about loss aversion. I think we talked about default options. An example you gave was again the retirement issue. The other couple ones that I've listed here are framing, priming, and availability. I guess we kind of touched on framing, how you state something. Does that go with loss aversion a little bit?

Jordan Birnbaum: Yeah. [00:28:00] We use framing to leverage loss aversion, but if we're going to talk about framing just on its own, there's one summary of it that I think is perfect, or an example of it I should say, which is let's say unfortunately you got sick and you went to the doctor. The doctor could say one of two things to you. The doctor could say, "You have this illness. There is a 90% survival rate for people who are diagnosed with this." Or [00:28:30] the doctor could say to you, "You have this illness. There's a 10% mortality rate for people who are diagnosed with this."

Now, not surprisingly, we would all really prefer the doctor use that first sentence, but at the same time, the doctor is communicating the exact same information in both sentences, and yet one impacts us so much differently than the other. Another fun example of framing is, you'd probably feel pretty good about buying something that was 80% fat-free, [00:29:00] but not nearly as good about buying something that was 20% fat.

It's kind of funny how the presentation of identical information can be so impactful in driving our choices and our perceptions and our reactions to things. What often happens is that framing can be the technique by which to leverage these other principles such as loss aversion, because we're framing prospects [00:29:30] now in terms of losses as opposed to in terms of gains.

Jacob Morgan: Makes sense. Yeah. I think the way that we frame it makes a lot of sense. All right, so the next one I have on this list is priming. This I think is very relevant when we talk about change management, trying to drive behavioral change. Maybe you can talk about priming for a minute or two.

Jordan Birnbaum: Yeah, I would love to. Actually priming is somewhat related to the availability heuristic. We'll almost start there, because again I would say that priming is almost [00:30:00] the exercise of our knowledge of the availability heuristic. Before I can even talk about that, I have to define that strange sounding word, heuristic. Again, this was coined by Kahneman and Tversky. These are obviously some very important and influential people in my life.

What a heuristic means is it's a mental shortcut. There is just too much information that we have to process every [00:30:30] minute of every day. To do it linearly and systematically would just require too much thought. It would literally take too long and require more energy than we have to give. So, we oftentimes have to rely on shortcuts, which can often come across to us as intuitive feelings. These mental shortcuts are often called heuristics. One of these heuristics is called the availability heuristic.

What it tells [00:31:00] us is that when an image or a memory or an idea is when the thought is very available to us, like we've encountered it recently and it's been very salient and very impactful to us. That availability causes us to overestimate the probability of that thing happening in the future.

For example, after a terrible hurricane or after a terrible flood, [00:31:30] the immediate aftermath, after we're watching the images on television, if we were asked what is the likelihood of another catastrophic flood in the next five years, we'd probably estimate it as pretty high, because the idea of flooding is so salient and so available in our minds. But if five years pass and no additional flood comes and we ask people, what's the likelihood of a catastrophic flood occurring in the next five years, then suddenly their [00:32:00] prediction would be very low.

This idea that the availability of a concept impacts how we determine the probability of that thing is really important, because it shows that we're not making good assessments of probability. Now, what I would point out is that I think sometimes when people hear this idea of assessments of probability, they incorrectly assume that now suddenly we're talking about math and like a very [00:32:30] limited set of applications.

But actually what we need to realize is that every single decision that we ever make is an assessment of probability. When you decide that you want a chocolate milkshake, you are guessing that you will like that chocolate milkshake more than you would like a vanilla milkshake. You'll say the probability of that is high, therefore, that's the choice that you're going to make. This idea of how available something is in our minds is incredibly impactful into what we perceive [00:33:00] around us and how we make decisions moving forward.

Priming is the technique used to leverage the availability heuristic. What priming means is that it's taking an image or an idea and making that very available to people by repeating it often, by bringing up lots of different examples of it, so that the more you can [00:33:30] get people thinking about an idea, the more likely they're going to find that idea in their day to day lives.

One example of priming and how it can affect us at a really unconscious level, there are some famous experiments in which people were shown words that were either associated with elderly people, or youthful people. The real reason of the experiment wasn't revealed to the people participating in it who [00:34:00] were given some pencil and paper tests based on the words that they saw.

The real experiment though was at what speed did they walk down the hallway afterwards. To the experimenters' delight and based on their hypothesis, what they saw was that the people who were shown words relating to elderly living walked down the hallway significantly slower than the people who were shown the words associated with youthfulness. Even [00:34:30] the idea of being presented to these words that describe the experience of being elderly made people behave in a more elderly way relative to the speed at which they walked down the hall.

Jacob Morgan: That's really interesting. That's a pretty cool. What's the name of that experiment in case anybody wants to find it? Is there a way to Google that?

Jordan Birnbaum: You know what, it's eluding me at the moment, but I would say that if you did a priming experiment elderly words, it will come up.

Jacob Morgan: That's fascinating. [00:35:00] I'm definitely going to look it up as well.

Jordan Birnbaum: You know, it's funny that when you hear about these experiments, it sure makes us start to question freewill.

Jacob Morgan: Yeah.

Jordan Birnbaum: Because if we're being influenced at this unconscious level, it's hard to say that we're making our choices without any external influences.

Jacob Morgan: Well, and also we're living and working in this world of big data, internet of things, AI, so we're going to have even more ways to technically manipulate [00:35:30] and influence and do all these things based on more data that we have on our workers and our customers. I don't know, have you thought about that at all?

Jordan Birnbaum: Yes.

Jacob Morgan: Like how big data and AI is going to impact all these things? Curious to hear your thoughts on that.

Jordan Birnbaum: I think about it often, but even before I address it, there's another ... You're operating in a very nuanced level. There was an interesting two choices of words that you used there, which was both manipulate and influence. [00:36:00] I'm really glad that you did because I feel like any discussion about behavioral economics that doesn't address the elephant in the room, which is hey, this could be used to manipulate people to make choices against their own best interest, is absolutely right.

It's not even a theoretical problem. It's an actual problem. It's already happening. I would say for the ethical BE practitioner, there's really two solutions to that problem. The first is doing exactly what we're doing right now, which is the more that we talk about this, [00:36:30] and the more that people become aware, the less likely we are to be influenced into doing something that we don't really want to do.

Knowledge, in this case, is power, but there's another really cool technique that behavioral economists can use that sort of is a litmus test as to whether or not what you're doing is ethical and okay. So it turns out that pointing out to people what you're doing while you're doing it doesn't make it any less effective. [00:37:00] In fact, I have a fun little joke where when I'm doing big

presentations about behavioral economics, I'll often on the cover slide, just put a picture of an audience laughing hysterically. It doesn't seem to have any purpose there at all.

As I introduce myself to the audience and set up what we're going to be talking about, I'll say, "Finally, you may be wondering why there's a picture of an audience laughing hysterically, and the answer is because [00:37:30] I'm priming you to find everything I say from this point on to be utterly delightful." People usually laugh, hopefully you believe that. In addition to the laughter, the point is that it doesn't actually make anything I say any less delightful. In fact, on some levels, it makes it more delightful, because now we're doing this sort of together.

The same way that when we went from an opt-in to an opt-out for a 401(k) savings, [00:38:00] that was not hidden. That was out in the open. In fact, it was communicated very explicitly. Something that I encourage other behavioral economists to do is that when you're creating these interventions, don't hide it. Call it out. Show people exactly what you're doing. In fact, it will likely build some good faith and make people even more likely to want to work with you, because they'll feel that you're working with them as opposed to working on them.

Jacob Morgan:

Yeah. In this case, it seems like transparency [00:38:30] is really, really important. We've seen some stories, I think there was an article not that long ago. I think it was a Telegraph. Basically what they did is one day employees showed up to work, or so the article said, and all of a sudden there were like cameras, sensors on employees' desks. Everyone was like, "What the hell is going on here? This is weird."

They just kind of revolted and said, "We don't want you monitoring us. This is uncomfortable for us." Meanwhile, [00:39:00] there's another company that did the exact same thing, Atlassian. They didn't go to the extremes with cameras, but they also put sensors on all the employee desks. But in that situation, it wasn't employees that just showed up one day and found them there.

Atlassian and other organizations have said, "Look, we're thinking about redesigning our space. We want to understand how you utilize your desk. That's why we're going to put these sensors." Because they gave them that level of information around what exactly they're doing and why, people were much more [00:39:30] receptive to it. I think that's a great lesson for companies. If you're thinking about doing something, just try to be as transparent and honest upfront as you can.

Jordan Birnbaum:

Hear, hear. I couldn't be more in agreement. I think that people will be very surprised at how so many problems are solved really by being open about what the challenges are, and bringing people in to becoming part of the solution with you, it's terrific.

Jacob Morgan: Now, we talked about [00:40:00] a few different techniques. Are there any others that you're particularly interested in that you think we should mention? We talked about loss aversion, default options, framing, priming, and availability. Are there any others that you think we should bring up?

Jordan Birnbaum: There are so many, but I have to choose which ones would be most fun for people to hear about. Here's one-

Jacob Morgan: And also practical as far as like workplace stuff, things that managers, leaders, people in HR might be able to apply inside of their companies.

Jordan Birnbaum: Okay. [00:40:30] Here's a terrific one, psychological reactants. What is psychological reactants? Reactants is the experience we have when we feel that a freedom is being threatened, that our freedom to choose is somehow being taken away from us. But what's very interesting is that ... Of course, it's a very negative experience, we don't like having our choices taken away from us.

But what's so interesting about this is [00:41:00] how innocently we can fall victim to this. When someone says to you, "Have a nice day," on some unconscious level, you're thinking, "What if I don't want to have a nice day?" We have to be extremely sensitive to any kinds of orders or commands that we put into our communications regardless of how benign they may be, because oftentimes at this unconscious level, if people feel that you are taking away their [00:41:30] freedom to choose, they will rebel, even if not consciously.

If I'm trying to coach a leader and I say, "Listen to your people. Hear what they have to say," I may in fact be pushing that leader against doing the very thing that I'm imploring him or her to do. But on the flip side, if I say, "Listening to your people not only makes them feel valued and wanting to work harder, but it also increases the likelihood that you will be exposed to a new [00:42:00] perspective that you hadn't considered that will support your innovation." In this case, all I'm doing is presenting the rationale for why a leader would want to listen, to do a better job of listening to their team, but without presenting this psychological barrier to actually embrace the behavior that we want.

Just taking it outside of the workplace, for a moment, for anyone who might be the parent of a teenage daughter or son, [00:42:30] I just implore you never say, "Under no circumstances are you to date that boy," because all you're doing is making sure that she wants to date that boy even more, having nothing to do with the boy, only having to do with her right to make the decision for herself. That's an important trap to avoid, lest you end up with a teenage boyfriend that you don't want anywhere near your family.

Jacob Morgan: That's a great example. I'm also wondering if it applies a lot to customer service too, because oftentimes [00:43:00] customer service professionals are given a template, and they've given a series of steps, ask the customer this. Listen to them like this. It's all very kind of directive. Maybe that's one of the reasons why

so many of us have terrible customer experience is because people don't follow the script, or maybe they follow it too closely, who knows?

Jordan Birnbaum: You are a natural applied scientist. I have to say. These are all wonderful examples of how you could apply this knowledge of understand [00:43:30] to transform the future workplace, so absolutely, I totally agree.

Jacob Morgan: Yeah, and I'm going to have to test some of these techniques on my wife. She's downstairs. She can't hear me right now.

Jordan Birnbaum: Okay, good.

Jacob Morgan: After I get off the podcast, I'm going to sneak in some of these techniques during the course of our conversations. We'll see what happens.

Jordan Birnbaum: Can I share one other technique around this concept of psychological reactants?

Jacob Morgan: Yes, please. I thought that was a fascinating one. That was a really good one.

Jordan Birnbaum: You're going to love this. Gosh, I can't remember their names, but these [00:44:00] really brilliant social scientists in France. They conceived of a technique around this concept of psychological reactants, and here's the experiment that they run to prove this technique. They went to a shopping mall dressed as panhandlers, and for their control group, which was getting like a baseline of what they should expect of this scenario.

Dressed as panhandlers, they would approach [00:44:30] a random sample of shoppers at the mall and ask for change for bus fare. They did it long enough and enough times that they came to a good average that they felt was indicative of what their baseline could be. Then they started the experimental group. They did the exact same thing, but with one change. This time they said, "Can I please have change for the bus fare, but you are [00:45:00] free to choose whether or not to give it to me."

Merely by adding those words, "But you are free to choose," they not only got a yes response twice as often, but they got double the amount of cash. The point was that merely by establishing the decider's freedom to choose, the decider became much more inclined to go along with it, because they felt so empowered.

[00:45:30] Lest we think that this is a one-time event. There have now been meta studies done and there have been more than 40 confirmed social science experiments where using the words, "But you are free," led to substantially and certainly statistically significantly higher response rates, affirmative rates. This occurred during people getting signatures, raising money, [00:46:00] driving sales, just about anytime that you are making a request, adding the terms, "But you are free to decline," dramatically increases your chances of success.

Jacob Morgan: That's another really interesting one. I'm kind of curious, where ... It seems like a relatively new field inside of work, because a lot of these fascinating studies and experiments have been done for a while. Anytime you read a book like Dan Pink's book or anytime [00:46:30] you speak with folks such as yourself, we always learn about these really cool experiments and studies.

Is there a place where we can go to learn more about these things? Is there a particular site? I'm just thinking people listening to this that are managers and leaders that are wondering, well, what other techniques are there that I should be knowing about? Where can I go? What should I Google? What book should I read? Any recommendations you have would be fantastic.

Jordan Birnbaum: Okay, so yeah I was going to say the first thing is that [00:47:00] most of this stuff is in books. The good news is that this is all really cool stuff, and most of the authors who write about it speak in a very conversational tone. It's very non-academic, with a couple of notable exceptions. There are fun books to read.

For me I would say the Mount Rushmore of behavioral economics books, the first one that you start with is called Nudge. That's written by Dr. Richard Thaler and Dr. Cass Sunstein. [00:47:30] Their claims to fame, Richard Thaler just this year won the Nobel Prize in Economics for his work in establishing the field of behavioral economics. Cass Sunstein was President Obama's pick to lead a governmental nudge unit where they looked to find opportunities to apply behavioral economics to increase the welfare of the citizenry. That would be book number one.

Book two that we already mentioned [00:48:00] is called Influence by Robert Cialdini. In this book Cialdini outlines I think six high level strategies for how people can exert influence from consistency and commitment to reciprocity, to authority, scarcity, but these various ideas of how these constructs can be used to drive persuasive outcomes.

Third book would be Predictably Irrational by Dr. Dan Ariely. [00:48:30] This is, again, a wonderful recounting of both his life that led him into the field of behavioral economics, and so many experiments that he himself conceptualized and conducted. He's really a luminary and it's fascinating stuff.

Then finally, the most challenging book of all, but perhaps the most worthwhile is Thinking, Fast and Slow by Daniel Kahneman. That I say is the equivalent of getting your PhD [00:49:00] in behavioral economics. If you can get through that book and understand all the different pieces of it, it is quite an accomplishment, but you are a much richer thinker in the end.

There are so many others, but I feel like four is sort of a good starting spot. Another site that I love is behavioraleconomics.com. They do an annual

behavioral economics report that I think is wonderful. It is free, and the organizers are doing it merely [00:49:30] to spread the knowledge.

Then two particular organizations that I think do really cool nonprofit work. One is called ideas42. In fact, I had the pleasure of attending their conference about a year ago and learned a lot of incredible stuff. Of course, the second one that name just escaped me, so I'm going to claim temporary insanity on that one.

Jacob Morgan: No worries. It happens all the time.

Jordan Birnbaum: Okay, cool.

Jacob Morgan: Those [00:50:00] are wonderful resources. I actually wrote all those down here while you were speaking. I know I have Thinking, Fast and Slow. I know I have Influence somewhere laying around my house that I need to review. I probably haven't read that book in like 12 to 15 years, but from what I remember, it didn't read as a story. It was just kind of like a series of different techniques.

Jordan Birnbaum: Exactly.

Jacob Morgan: Which seems kind of a good manual to have.

Jordan Birnbaum: Yes.

Jacob Morgan: Then of course Influence and Predictably Irrational, so definitely I hope everyone grabs those books as well. [00:50:30] Listening to you talk about this, I was kind of wondering, has anybody ever pushed back and said, "Well, are we trying to sanitize things too much?" Are we going to get to a point where we're so worried about what we say and how we say it that we kind of are going to start to just be too sanitized in how we frame things?

It seems like right now, a lot of conversations that we have inside of companies are kind of, [00:51:00] you know, sometimes they're casual like, "Hey, you should listen to your employees, or you should listen to your customers." Are we going to get to work one day where somebody says, "Well, the benefit of listening to your customer ..." You know what I mean? It just sounds kind of like a robot is saying it, and not like a genuine human voice. Are you worried about that at all, like just being so worried about how we say things that we kind of lose our little bit of authenticity in there?

Jordan Birnbaum: [00:51:30] I think that's a really fair question. I'm not concerned about that relative to this particular practice. I think that it lends itself almost to the political correctness conversation, where I think people like really compelling points on both sides, and I agree with both sides and both perspectives, which to me is an indication of how complex a subject it is.

When it comes to behavioral economics, I would say [00:52:00] there's two things that differentiate it. The second answer leads back to a question that you raised before that we never answered about big data. The first thing that I would say is that, behavioral economics is not about structuring our communications to be careful to not offend. Behavioral economics is about structuring our communications to be more effective and to be more impactful.

When we talk about using [00:52:30] these techniques, what we have to remember is what is it that we're actually encouraging? We're encouraging leadership development. We're encouraging change management. We're encouraging collaboration development. We're encouraging more authentic communications between teams. To me, behavioral economics is merely the arc of progress in terms of how understanding how we can be most effective particularly when it comes to helping people [00:53:00] be their best selves, which is often the motivating intention behind a lot of the things that we do with our employees.

Then the second element of it is that for me, of course, it's making us more human because we are digging into the quirks and the idiosyncrasies that can help us better understand our own choices and our own behaviors and our own selves. What excites [00:53:30] me about big data and machine learning and artificial intelligence is that right now for us to discover these elements of how our minds work requires tremendous creativity and insight on behalf of great thinkers who not only have to conceptualize the idea, but then have to figure out how to build an experiment to prove it, and then validate it again.

It is so difficult, and so [00:54:00] it's taken 100 years of research for us to just start scratching the surface. What I think that big data and machine learning and AI offer us is that they're going to be able to spot things long before we can. That will lead us to insights about the human mind and human behavior that's going to help us become better.

In that regard, I think that while I understand the concerns about big brother watching, I understand [00:54:30] the propensity for people to just collect data without having any idea how they're going to use it and what the problems are with that, I think more than anything though, the insights that will be available to us and how we'll be able to use that new information to improve our experiences at work and in so many other aspects of our lives to me actually it's all very almost Pollyannish.

Jacob Morgan:

Well, I'm glad that you're optimistic about this. Actually when you think about just the future [00:55:00] of work in general, I know this is kind of a big topic, you probably have a lot of conversations about it. I know ADP certainly talks about it a lot. Do you see behavioral economics as sort of a crucial factor in the future of work, something that maybe one day a lot of organizations around the world are going to be using and applying as a way to kind of drive change inside of companies?

Jordan Birnbaum: My over–under is five years. I think that all behavioral economics [00:55:30] is, is a more sophisticated understanding of the human condition. To me, it's hard to understand what organization would not benefit from a more sophisticated understanding of human behavior, how to motivate people, how to appeal to people's better senses, how to help people perform at their best.

Yes, I think that we are collectively all starting to understand [00:56:00] what a tremendous asset we have with this knowledge, and much like we've been doing in this conversation, we're starting to think of like, "Oh, look at all these cool ways that we can apply this knowledge to get to some kind of better outcome.

I actually think a really wonderful job in the future is for people to pursue industrial and organizational psychology, and to pursue their own education in behavioral economics, because [00:56:30] I think that for the next 25 years we're going to be finding incredible ways to integrate our new understanding into the human condition to create a much healthier, more productive, and more sustainable work environment.

Jacob Morgan: Well, very well said. We've certainly seen growth of industrial organizational psychologists inside of companies, which I think has been great. It almost feels like what people traditionally think of as a soft science is becoming a little bit more of a hard science. It's being taken more [00:57:00] seriously. It's being integrated into how we design companies and understand our employees. It's been a pretty interesting change to see this kind of influx of psychology at work.

For people that are listening to the podcast that are thinking, "All right, Jordan talked about a lot of different stuff. I'm going to go into work tomorrow and I'm going to do my job the way I usually do. I have my team, the people that I'm going to see. What changes should [00:57:30] I start making after listening to Jordan?" If you were to give maybe a couple of tips or pieces of advice for what we can start doing inside of work, just practical maybe easy things, what advice would you give to people that are either responsible for teams or maybe just individual contributors around how they work?

Jordan Birnbaum: I think that when you take a step back and you think about the field of behavioral economics, that one of the things that becomes clear that we often forget is that human beings [00:58:00] are very limited cognitively. We have a lot of challenges that interfere with our capacity to be fully rational. There are elements like cognitive load, which talks about how there's only so much information that we can take in a given sitting and retain in any kind of way.

For example, I think a really common mistake with training programs is when they last [00:58:30] for longer than 45 minutes. I think that you actually start doing damage because you're interfering with the person's ability to process the information that you gave them in the first go-round.

People suffer from something called ego depletion, which is when you lose your capacity to regulate your own emotions. That takes a lot of work. Regulating our emotions from the time we wake up the time that we go to bed takes a lot [00:59:00] of work. When we have a day in which we've had to do heavier than normal emotional regulation, by the end of the day, we can get to be pretty nasty versions of ourselves.

I think that one of the most common mistakes that organizations make when they're in that sort of should mindset of how should employees react, and how should employees behave, just realizing that should is not a very good predictor, [00:59:30] because we're not as perfect as we like to think we are. We have a lot of challenges to being at our best all the time. I think that we can often lose perspective of that. A lot of the mistakes and problems at work come from our forgetting the fact that we are only human.

Jacob Morgan: I think that's a wonderful way to wrap up. We talked about all sorts of really cool stuff. I think the books that you mentioned are going to be great additional resources [01:00:00] for folks to look at. If people are interested in connecting with you or learning about you more, I know you have a couple of articles where you write on LinkedIn, and I saw a couple of others for the ADP blog, which were very easy to read and very interesting, had some great pieces of advice in there. Anything that you want to mention as far as where people can go to connect with you and ADP and learn more about behavioral economics, feel free to mention it.

Jordan Birnbaum: Absolutely. Thank you so much. I do write a blog for ADP called The Applied [01:00:30] Guide. If you just Google The Applied Guide, you'll see there's probably about seven or eight articles up there that talk about all of these concepts and how they could be applied to various problems at work. For example, there's one blog that talks about priming and the availability heuristic that we described here, and how that is important when thinking about how to define organizational culture.

Alternatively, you can find me on LinkedIn and connect with me there, Jordan Birnbaum. I'm also [01:01:00] on Twitter and would love a follow, where I tweet about any of these upcoming blogs or interviews that I do. Let me just say that this was as much fun as I could possibly have. Thank you so much for having me. Not only did I enjoy sharing with you, but I thought that your questions revealed a level of sophisticated understanding that made this a real treat, so thank you.

Jacob Morgan: Oh, my pleasure, and I appreciate the compliment. That's always nice [01:01:30] to hear. Well, thanks for taking time out of your day. I certainly learned a lot, and you absolutely reminded me to go check out some of these books, and jump back into some of these old psychology things that I studied probably around a decade ago. So thank you very much for being a guest.

Jordan Birnbaum: The last piece of advice that I would say is that behavioral economics makes for great party conversation. Bring it up at parties, people want to know.

Jacob Morgan: Yeah, bring it up at a party conversation. Absolutely, I love that piece of advice. Well, [01:02:00] Jordan, thanks so much for taking time out of your day. I really appreciate it.

Jordan Birnbaum: Thank you so much. This was great.

Jacob Morgan: Thanks everyone for tuning in to this week's episode of The Future of Work Podcast. My guest, again, just in case you forgot, Jordan Birnbaum, VP and Chief Behavioral Economist, oh my goodness I can't even speak, VP and Chief Behavioral Economist at ADP. I will see all of you guys next week.