How Can Behavioral Economics Accelerate Systems Change in Workforce Development?

People do not always make rational decisions; rather, we often use other means to make decisions in complicated situations, especially when there is high uncertainty in the outcome. Generally, employers do not scientifically optimize (or even try to optimize) the exact ROI of a particular investment in employees. For example, no employer has perfect information on which of three job candidates will work out to be the best contributor over 10 years. So how do such complex decisions get made? And how can practitioners influence decisions for this type of problem? These complex, uncertain decisions are where understanding behavioral economics is particularly helpful.

Traditional economic theory holds that people always make rational decisions that optimize their outcome toward a particular objective. Inherent to this theory is that these optimal decisions require the rational decision-maker to always have accurate and complete information—and the time, ability, and motivation, to process it appropriately. The modeling of such rational, logical decisions and decision processes fits nicely into spreadsheet models, and lends itself to high levels of sophistication—hence its appeal to finance and business. While plenty of evidence existed showing this theory did not work for many real-world applications, with no alternative theory, people clung to it.

Then behavioral economics came along. Behavioral economics applies psychology to how people think, decide, and act—in real-world economic decision making. The impact of this theory is profound. Based on Nobel Prize-winning work by psychologist Daniel Kahneman (with Amos Tversky), BE addresses how people make decisions under uncertainty. When uncertain, people often save time and “thinking energy” by relying on heuristics (mental shortcuts) and cognitive biases to make decisions, and this explains many of the “misses” of the traditional rational decisions theory.

Therefore, traditional economics tends to posit that people will make rational economic decisions given enough (some say perfect) information, and enough time to make the optimal decision. However, the psychologists reply: When, in the real world, do people ever have perfect information, or enough time to make an optimal decision? It turns out, the psychologists are mostly right.

People do not always make rational decisions; rather, we often use other means to make decisions in complicated situations, especially when there is high uncertainty in the outcome.
Running a brain is energy intensive: at less than 2% of body weight, they consume 20% of our energy. So, brains evolved to conserve energy when possible—and the end result is that we think much less than we think we think. Every day, we make thousands of “decisions” about what to do, under a wide array of circumstances. Most decisions happen without conscious thought—they are automatic, habitual, or cued by things in our environment. They are reactions, not decisions. Our brains didn’t evolve to make decisions that are always right and always optimal but rather to quickly and with minimal energy use be mostly right and good enough.

Kahneman’s System 1 & System 2 Thinking

A core concept of BE is that we have two brain systems to process information for action: System 1 is fast, automatic, effortless, intuitive and non-conscious. This system enables significant energy conservation, while getting reactions mostly right and generally good enough. System 2 is slow, deliberate, effortful, energy-hogging, logical and conscious. While both systems are always on, and work together, System 1 generally rules the day.

Motivation

We are wired to make split-second decisions to move toward something that attracts us (approach), or to move away from something that repels us (avoid). This “decision” happens in ¼ second or less (System 1), without involving the conscious “thinking” (System 2) part of your brain. This split-second decision making is the source of many of our biases.

Categorization

Fast decisions are enabled by the process of categorization. Categories enable very fast “if this circumstance, then that action” types of decisions. Categories are very often extremely helpful, but sometimes, they get in the way, or contribute to very poor decisions.

Heuristics

Heuristics are energy saving shortcuts to decisions, to get things done. Not always perfect, and not always right, but again, mostly right. Ask which city is bigger, New York or Houston? San Francisco or San Antonio? Most would say New York and San Francisco. We use the availability heuristic, and choose those because we hear more about New York than Houston, more about San Francisco than San Antonio—even though San Antonio is far larger. As with biases, heuristics often work very well, but sometimes they misfire.

Biases

Our environment usually presents us with one of two problems: either too much information, or too little—and yet we often need to act quickly. We evolved strategies to deal with each of these situations. A cognitive bias is generally thought of as a systematic error in reasoning, remembering, or decision making, but as with categorization, any given bias can be useful in one situation, erroneous in another. Biases help us with information conundrums.

For example, when faced with too much information, we might extract only that which supports what we already believe (known as confirmation bias), or we might consciously focus on only one attribute among many, such as someone’s criminal record (known as the focusing effect). It is often easier to ignore the many new things coming at us—generating the status quo bias. Because we are highly social, we have a bias to favor those like us (ingroup bias), and to be cautious with those unlike us (outgroup bias). And when things go wrong, we tend to cut ourselves slack more often than we do for others, known as the fundamental attribution error. These biases will be explained further below.

Context

Behaviors are strongly determined by context – our environment, external triggers, and the internal motivations, biases and perceptions we bring to it. To understand a behavior, understand its context. To effect behavior change, it is often easier to change the context, to change the environment in which the behavior happens, than it is to change the internal biases and perceptions. To deal with this, experts have developed sub-disciplines such as behavior-based design, framing, and choice architecture.
Practitioners sometimes feel they face a lack of trust, or credibility, as they begin to engage employers. It is tempting to take this personally: “Lack of trust” is a "lack of trust in me." But such a response is normal at the start of any relationship. It reflects how we are wired for social situations, i.e., to be cautious. This is BE in action. Before we can engage in a substantive conversation with employers to help them meet their business goals, we need to establish trust.

There is a lot of psychology and BE applicable to building trust with employers. The examples below are best understood in the context of an engagement over time, so we start broadly with several straightforward ways to build trust.

### Establish a personal connection

Find and talk about personal things that you have in common with the employer as people; look for shared connections and values. Connections should be authentic, shared, personal experiences. The goal is to see commonalities in each other as people, and not see only differences in our work roles.

### Share their goals

Our work with employers is an influence situation. BE informs us that any person on the “receiving end” of an influence attempt will have their guard up. What they want to know is this: Is the other person trying to help me achieve what I want (response: approach), or is the other person trying to achieve what they want (response: avoid)?

### Ask questions and listen.

Generous listening builds trust. Ask questions about the employer, her business goals, her employees, and her needs going forward. What is important to her? To her employees? Generously and authentically listen with undivided attention. Play back what you hear to demonstrate your interest, commitment, and your ability to understand. Knowing that one is heard and understood by the other person goes a long way to build trust.

### Demonstrate commitment and competence

Trust builds and evolves over time. Within each interaction, remind the employer of your understanding of their goals, barriers or issues, before bringing forth ideas, publications, industry case studies, wisdom, and guidance, tailored to help meet those goals. This demonstrates your commitment to their goals, and your competence. When the time is right, offer multiple solutions, and discuss what might work or not work, and why. Encourage the employer to seek other solutions – especially from their own frontline employees – before making a decision on how to proceed.

### Seek feedback

Ask how you are doing. Ask what else you can do, or do differently to be of more help. Demonstrate that you are open to hearing from the employer how to make your work for them better. By doing this, you will be modeling the behavior you are encouraging that employer to exhibit with her frontline workers – engage them, seek to understand their view, solicit their ideas to make things better. This action strengthens the trust-building steps above, fully demonstrating that you are there to help the employer meet her or his business goals, and to do so by helping them leverage the full capabilities of their frontline workforce.
EXAMPLES: APPLYING BEHAVIORAL ECONOMICS CONCEPTS
Now we will revisit behavioral economics in the context of specific situations in which a workforce practitioner might find herself.

Example #1  Ingroup | Outgroup Bias

**Situation—Establishing Competence:** A workforce practitioner is concerned that an employer she is talking to doesn’t trust that she has appropriate (or perhaps sufficient) business experience.

**Hypothesized Bias:** The “ingroup|outgroup” bias may be operating: the employer sees the practitioner as a member of an outgroup (i.e., different from mine), and is naturally cautious, or even suspicious. “She is a nonprofit-type person—she is not of my tribe.”

**Explanation of Bias:** An outgroup bias is the tendency to have suspicion or even negative views about people that are not part of one’s own group. This bias stems from the need to instantly deal with nearly overwhelming complexity in one’s environment. To deal with that complexity, brains use categorization to group things quickly, with little effort, and usually no conscious thought, to determine the “right way” to proceed. While tremendously helpful to our survival every day, when this automatic process is used (or overused) to group people—instantly categorizing as “like me and good” or “not like me and bad”—it often results in erroneous classifications, and missed opportunities to leverage the full capabilities an individual represents.

**Situation Example:** A workforce practitioner is engaged in a conversation about frontline worker “job-quality redesign” and the employer is resistant to the conversation, or not engaged.

*Conversation topics for this outline might include asking the employee what they like, and do not like about their job; how they would improve it, or make the outcomes better for them and for the business; what training, cross-training or other information could they be given to make them better at their job; how are work schedules and hours affecting them – is it working for them, or can adjustments be made; and what other things hamper their ability to do their job to their fullest potential?*
**Situation—Sourcing New Workers:** Despite a tight labor market in which the employer is having difficulty finding new workers, the employer has yet to consider alternative strategies and pools of candidates.

**Hypothesized Bias:** Status quo bias.

**Explanation of Bias:** The status quo bias is an emotional bias, operating in the background, without conscious awareness; it manifests in a strong preference for maintaining things as they are. Any change from the way things are is perceived as risky, possibly as a loss, or even as a threat. The status quo bias has a strong influence across a broad swath of decision making. If forced to think about it, we convince ourselves there are “good reasons” not to change, even though that is often inaccurate, and a change is needed.

**Situation Example:** A workforce practitioner is engaged in a conversation with an employer about the increasing difficulty of finding new workers. The employer has not adjusted his approach to sourcing, and even appears resistant to discuss a change.

**Example Conversation or “ways in”:** A practitioner might address this situation several ways:

> **a)** First, help the employer understand that his situation is not unique, but rather, a symptom of a broader environmental change that has happened. Sharing that other employers locally, or other employers in the industry, are experiencing similar or even more extreme levels of the problem helps to frame the problem as “systemic.” Such a framing can open up the path to a conversation about the need for new regional or industry employee sourcing strategies, and therefore like others, the employer will need to change to be successful. This makes it easier to conclude that mere “tweaking” of what the employer already does is likely insufficient.

> **b)** This broadening approach opens the door for the practitioner to “naturally” bring in case study examples of successful strategies other employers have used. Highlighting similar local or industry employers who solved similar problems, provides confidence that such approaches work, which encourages the employer to move “from ambivalence to action.” There is significant power in social proof: “If it worked for them, it will work for me (since they are like me).”

> **c)** Evidence is mounting across diverse companies, industries and regions, to support the use of non-traditional recruitment strategies to address sourcing gaps. Approaches include: reaching directly into the community; partnering with workforce organizations; partnering with other employers; increasing outreach budgets; and not to be overlooked, employers engaging current employees to help solve the problem, e.g., via incented referrals. Current employees who are doing the job likely have the best view to others who can do the job, but might not have traditionally been considered qualified.

> **d)** Not to be missed: Help solve recruitment problems by increasing retention. Engaging current employees more deeply in the overall business helps increase retention levels. Practical evidence continually mounts that fully engaging frontline workers improves job satisfaction, retention, and performance. Investing in frontline workers pays dividends in top-line and bottom-line business growth, and the human benefits cannot be overstated.

> **e)** Non-traditional pools of workers can also successfully be tapped: broader racial diversity; broader gender inclusion; recruiting returning veterans; accepting those recently incarcerated and released; younger workers; older workers; and individuals with disabilities. Such strategies are often overlooked, sometimes due to legal reasons, but more often due to status quo bias (“we just don’t do that”) or the easy to succumb to outgroup bias. Again, a practitioner sharing successful case examples of similar companies winning in the marketplace—after having adopted non-traditional approaches and new pools of employees—can be a way to smooth the road for an employer to take similar action.
Situation—Retaining Employees: A workforce practitioner is helping an employer facing unusually high turnover of frontline workers. The issue is taking a toll on the company's ability to meet production goals. The employer has not yet fully engaged his employees in understanding, and addressing the issue.

Hypothesized Bias: Fundamental attribution error. It is possible that the employer sees the primary (and perhaps only) reason people leave is due to the employees' choices (which can often be perceived to be poor decisions, shortsighted, or wrong) or due to the employees' character (e.g., "They did not want to stick with it, or put in the effort." or "They didn't want to learn anything new.").

Explanation of Bias: The fundamental attribution error is a flaw in our thinking about why we do what we do, and why other people do what they do (especially if something goes wrong for us). When trying to assess why something happened, we tend to place undue emphasis on internal characteristics of another person (in this case, a departing employee) rather than external factors (especially our own behavior) that might explain that person's choices. If fundamental attribution error is operating, we attribute another person's behavior to their internal character or intention, not the external situational or environmental factors.

Situation Example: A workforce practitioner is engaged in a conversation with an employer about stemming high turnover. The employer views the issue as an outcome due to employees' choices, and he may not be considering situational or environmental workplace factors that are contributing. A simple way of thinking about it is that the employer may be viewing the situation as "the fault is with them."

Example Conversation or “ways in”:

> a) At its core, the fundamental attribution error is about protecting self-ego. A practitioner can try expanding the employer's view of the scope of the problem, so it is less threatening as "my problem" but rather is seen as an industry- or region-wide issue that the employer is "caught up in" and therefore must address. A "non-threatening" way is to bring industry trends, learning about departure or retention issues from other similar companies in the region, as well as similar companies in the industry, and then seeking to determine if any apply for this employer.

Aside: of course, if the root cause of the turnover problem IS related to the employer's own behavior, it will need to be addressed; such situations likely require a high level of trust and rapport before getting to it.

> b) Better still, help the employer engage in in-depth conversations with departing employees. There is no substitute for a deep conversation about why someone is leaving. This is also a good time to practice the "5 WHYS" questioning to really understand the impact an issue might be having for an employee. Developed by the founder of Toyota, adopted by Six Sigma, and practiced extensively in manufacturing and beyond, the 5 Whys approach works well to uncover root causes of outcomes in complicated situations. The simple process starts with the problem statement (e.g., Dave quit his job) and repeatedly asks why did that occur until a root cause is obtained (perhaps, e.g., not knowing his shift until the day of work makes it extremely difficult to manage family activities).

> c) It is very likely that by getting a deeper appreciation for the issue from the employee's point of view—and understanding the impact on the employee's family and life—it will become clearer that the person is not leaving due to a poor decision, or some inherent flaw in their character (the attribution error) — but is actually making a sound choice given their circumstances. Such a learning can be used to launch a conversation about how the employer might be able to address the broader circumstances impacting their employees, and thereby help address his retention issue.

> d) Since retention is the concern, a practitioner can help the employer by sharing tools to address the issue before it becomes an issue. Similar to the above, help by providing template interviews for talking with current employees (before they can become departing employees). Such an interview can include questions such as why they work here, what they like about their job, what they don't like, how it can be made better, what if anything they need to do their job, or do it better? Open questions about what the employer can do differently to make things better are certainly appropriate as well.

> e) Also, employers should be encouraged to engage their employees on topics more broadly than just their job—engaging them in ideas to meet the company goals, help the company improve, or deliver better for the customers. Such engagement will very often produce business-building ideas from the frontline workers, as well as the engagement that will help stem departures, as people become more satisfied with their jobs, and feel more a part of the company. In short, activate a good jobs strategy (see Zeynep Ton references in Resources).

> f) Addressing the fundamental attribution error bias requires that we flip our view to start from the premise that each (departing) employee is making a good decision — a good decision for them. Then we seek to understand why, from their point of view, it is a good decision. Only then can we work with employers to change the circumstances and situations to be more conducive to better leveraging and retaining frontline employees.
Example #4: The Focusing Effect

**Situation—Screening New Workers:** A workforce practitioner is working with an employer facing an increasingly tight labor market, and despite having difficulty hiring new workers, the employer has yet to consider adjusting selection criteria or lowering historically-held hurdles to employment.

**Hypothesized Bias:** The focusing effect is operating—the employer is “fixated on” one aspect of a person’s credentials or past, to the exclusion of other factors that may suitably qualify the candidate for a job.

**Explanation of Bias:** The focusing effect bias operates when people make decisions on the basis of pronounced, distinct information, and other pieces of useful information are not even considered. Decisions are then based on a very limited amount of the total information that could be relevant, often resulting in sub-optimal decisions.

**Situation Example:** Despite an increasingly tight labor market, an employer continues their practice of screening out candidates who do not have particular academic/educational credentials, and to screen out candidates with a drug or criminal background event. The workforce practitioner is working with the employer to help source and select suitable candidates for open jobs.

**Example Conversation or “ways in.”:**

With this situation, at the core of this bias is not wanting to make a “wrong” decision, especially one that others can easily point to as having been foreseeable from the beginning. A bad outcome leads to embarrassment and a feeling of incompetence. In a way, it is better to “follow the rules”—even if that leads to a failed outcome (wherein I can blame the rules)—versus trying a new approach that might go off the rails (wherein I am subject to others’ blame).

> a) Address this situation by expanding the employer’s frame of reference, helping the employer understand that her situation is not unique, but rather, a symptom of a more significant change in the workforce talent supply, requiring more significant changes to the employer’s practices. Reframe the situation such that adhering to the status quo would be erroneous. (Note: as is often the case in applying BE, multiple factors are at play—the status quo bias can be operating along with the focusing effect.) A change is warranted by the situation; to not change is a poor choice leading to failure.

> b) Next, the practitioner can engage the employer in a conversation about her hiring needs—past and current approaches to finding and selecting appropriately talented individuals; what new strategies she is considering—and begin to explore various options. Having multiple options is a good way to engage the employer in conversation, while talking pros and cons of each option.

> c) Along with sharing sourcing options, the practitioner can then broach the subject of qualifications of candidates, separating out what is legally required for the role, what is historically required, and what truly disqualifies candidates. The goal is to shift the conversation to determining true competence for the role (i.e., does the person have the requisite skills to perform the necessary behaviors) and not be bound by historical “proxies” for assessing qualifications, such as a specific degree, or a specific certification.

> d) If certain items historically disqualify candidates, but not for legal reasons, that is the point to address the focus effect bias. A practitioner can express her understanding that such was perhaps appropriate in the past, with different conditions for the available labor pool; and she can share that given the current conditions of a constrained labor pool, many of the companies she works with are adjusting criteria. They are still considering historically disqualifying issues, but are not using them for immediate disqualification. In fact, increasingly companies are finding success with hiring candidates they might have historically looked past, and now are finding such candidates becoming successful frontline workers.

> e) Regardless of the workplace issue being discussed, a practitioner “tuned in” to the focusing effect will start to recognize that any time an employer professes to have only one way to do something, or an employer qualifies or disqualifies someone based on one attribute, then the focusing effect is likely operating. When this bias is operating, the role of the practitioner is to expand the frame. This can be done several ways: by sharing counter examples of success stories; or by engaging the employer in a conversation about “what makes people successful in the role.” In response, the employer will almost undoubtedly come up with multiple attributes that contribute to success, and very likely, none of them will be the single qualifier—and none will be related to not having the single disqualifier. Such an exercise changes the focus to what is truly needed to succeed in the job.

> f) And last but certainly not least, a practitioner should facilitate having the employer work with employees to address the selection criteria, and even become part of the sourcing and selection process. As frontline workers—that is, the people doing the work—employees are well-suited to assess whether an individual has enough of the full set of qualifications to successfully do the job (or quickly grow into it), and they are therefore less likely to focus on one particular aspect of the candidate profile.
The goal of this paper is to show how an understanding of behavioral economics could help practitioners in their work with employers and employees.

Many of the challenges faced by practitioners when working with employers are easily understood as belonging to a class of in-group/out-group situations. Such situations should first be addressed by breaking down the artificial group boundary, establishing credibility, competence, and trust, in the relationship – i.e., getting on the same team, the employer’s team. Then, practitioners can move on to influencing decisions and outcomes by applying BE in the context of an employer’s specific situation. This application should consider a) employers’ motivations; b) any decision heuristics or shortcuts employers may be using; as well as c) any cognitive biases that may be operating subconsciously, without the employers’ knowledge. Using this approach, practitioners will find they make themselves stronger partners—helping employers achieve their business goals, while at the same time, helping to improve employment outcomes for their jobseeker constituents.

Resources

Behavioral Science: General

An Introduction to Behavioral Economics by Alain Samson, PhD.
* Cognitive Bias Cheat Sheet by Buster Benson (and graphic by John Manoogian)
How Unconscious Biases Block Effective Interactions (Knowledge at Wharton, Sara Taylor podcast)
The Undoing Project: A Friendship That Changed Our Minds by Michael Lewis
Thinking Fast and Slow by Daniel Kahneman (but please ignore Ch. 4, as it has been retracted)

Behavioral Science: Workplace

Avoiding Unconscious Bias at Work by the Mind Tools Editorial Team
How Employers Can Root Out the Influence Of Unconscious Bias In Compensation Decisions by Michael D. Thomas
Proven Strategies for Addressing Unconscious Bias in the Workplace by Howard Ross
The Real Effects of Unconscious Bias in the Workplace by Horace McCormick, Jr.

Building Trust

13-simple-strategies-building-trust posted on Coaching Positive Performance.com
Building Trust Inside Your Team by The Mind Tools Editorial Team
The Neuroscience in Building High Performance Trust Cultures by Kenneth Nowack and Paul J. Zak

Investing in Entry Level Talent

* FSG Entry-Level Retention Makes a Billion Dollar Difference for Business and Society by Kimberly Gilsdorf
FSG Report Download: Investing in Entry-level Talent: Retention Strategies that Work by Kimberly Gilsdorf, Fay Hanleybrown
* The Good Jobs Strategy: How the Smartest Companies Invest in Employees to Lower Costs and Boost Profits by Zeynep Ton
* The Good Jobs Strategy: A Q&A with MIT Sloan’s Zeynep Ton posted on MIT Management Newsroom
The Idea-Driven Organization: Unlocking the Power in Bottom-Up Ideas by Alan G. Robinson and Dean M Schroeder
* Highly Recommended

Joe Baumann is the President of JNB Brand Growth Consulting. We thank Mr. Baumann for developing his analyses on the role of behavioral economics in fostering positive changes to business practices.

The National Fund for Workforce Solutions is a national network promoting economic opportunity and prosperous communities through investment and innovation. Based in Washington D.C., the National Fund partners with philanthropy, employers, workers, public and private community organizations, and more than 30 regional collaboratives to invest in skills, improve workforce systems, and generate good jobs. Learn more about the National Fund and its local partners at www.NationalFund.org.