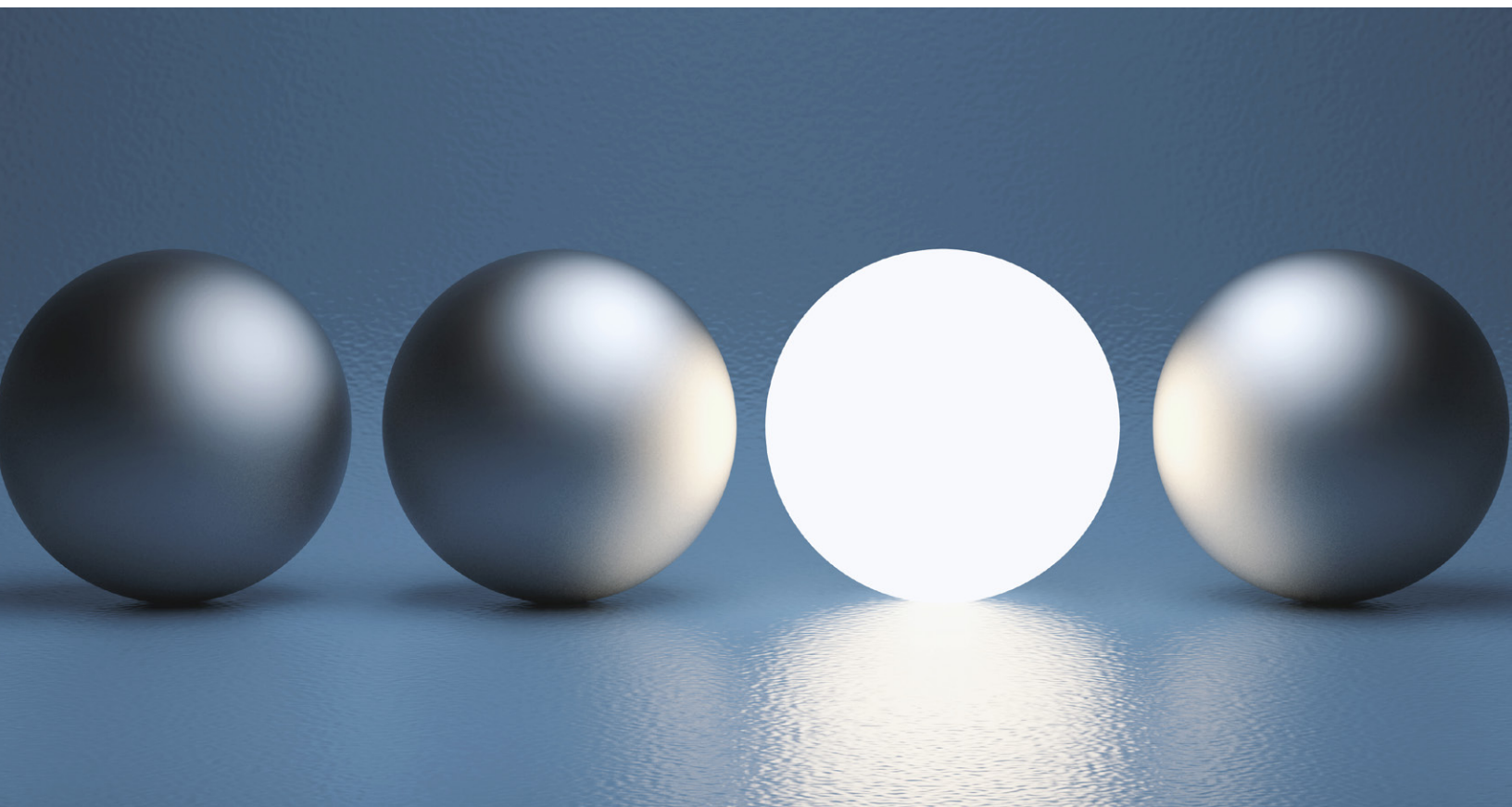


Strategy & Corporate Finance and Organization Practices

Much anew about 'nudging'

Almost 15 years after introducing a critical choice-making framework, behavioral economists Cass Sunstein and Richard Thaler reflect on its continuing impact on business and society.



Since Harvard professor Cass Sunstein and University of Chicago professor Richard Thaler introduced the concept of nudging to the world, in 2008, about 400 “nudge units”—or behavioral-insights teams—have been established in public- and private-sector organizations around the world. Nudges are interventions, big and small, aimed at getting people to act in their own best interest. Health organizations, for example, have used nudges to educate citizens about COVID-19 testing and vaccination. Consumer-goods companies have used them to steer customers toward climate-friendly products and services. Indeed, nudging has become so widespread that Sunstein and Thaler decided to update their thinking and to capture it in the newly released *Nudge: The Final Edition* (Penguin Books, August 2021). In a recent conversation with McKinsey’s Julia Sperling-Magro and Roberta Fusaro, the authors reminded us what nudge and choice architecture are. They also considered how technology and other changes in business and society have altered the practice of nudging and the amount of “sludge” in decision making. An edited version of the conversation appears here.

McKinsey: For the uninitiated, what is nudging?

Cass Sunstein: A nudge is an intervention that maintains freedom of choice but steers people in a particular direction. A tax isn’t a nudge. A subsidy isn’t a nudge. A mandate isn’t a nudge. And a ban isn’t a nudge. A warning is a nudge: “If you swim at this beach, the current is high, and it might be dangerous.” You’re being nudged not to swim, but you can. When you’re given information about the number of fat calories in a cheeseburger, that is a nudge. If a utility company sends something two days before a bill is due, saying that “You should pay now, or you are going to incur a late fee,” that is a nudge. You can say no, but it’s probably not in your best interest to do so. Nudges help people deal with a fact about the human brain—which is that we have limited attention. The number of things that we can devote attention to in a day or an hour or a year is lower than the number of things we should devote attention to. A nudge can get us to pay attention.

McKinsey: How is nudging different now than it was, say, 13 years ago, when your book was originally published? What makes for a good nudge in 2021?

Cass Sunstein: The basic theory is similar, though I think we understand it better now than we did then—and I think we’ll understand it better in ten years than we do now. We know that good nudges still make the chooser’s life better, and bad nudges don’t. What we’re seeing more of now, however, is nudging to protect third parties. You might have a climate-change nudge where the basic goal isn’t to protect the chooser; it’s to reduce greenhouse-gas emissions. In Switzerland, for instance, people have been nudged to automatically enroll in clean-energy programs. If they don’t want to, they can opt out, although the “dirtier” program may be more expensive. That nudge is designed to protect people from climate change generally, not necessarily to protect individual choice makers.

McKinsey: Nudging is tied very closely to the concept of “choice architecture.” What is that? Can you remind us?

Cass Sunstein: Really, any situation where you’re making a choice has an architecture to it. The owner of a website may put certain things in a very large font—the things that the private or public institution really wants you to attend to and maybe choose—and keep certain things hidden in small print at the bottom. And it turns out that small differences in this kind of architecture can lead to large differences in social outcomes. If you have a choice architecture where people must opt in, for instance, the participation rate is a lot lower than if the architecture prompts them to opt out.

One example of that is a US program that is designed to help children get access to school meals. The kids are legally entitled to these meals if they’re poor. But a lot of their parents don’t sign them up, probably because it’s scary to figure out how or it’s confusing or it’s just a matter of time commitment, and the parents don’t have a lot of time. The government switched from an opt-in design to an

opt-out design—if the school or the locality knows that you’re poor and you’re a child, you automatically get the meal. The idea was that this would not involve a big advertising campaign. It would be very simple. And at last count, 15 million children in the US are enjoying nutritious and tasty meals in school.

McKinsey: For all the good that nudges can do, there are also ethical concerns. How can you be sure people are using nudges in the right way?

Richard Thaler: I get this question all the time. Do we worry about how people are thinking about this



Cass Sunstein

Education

Holds a JD from Harvard Law School and a bachelor’s degree from Harvard College

Career highlights

Harvard University

2013–present

Robert Walmsley University Professor

World Health Organization

2020–21

Chair of the Technical Advisory Group for Behavioural Insights and Sciences for Health

Harvard Law School

2012–13

Felix Frankfurter Professor of Law

US Government

2016–17

Defense Innovation Board

2013

The President’s Review Group on Intelligence and Communications Technologies

2009–12

Administrator of the Office of Information and Regulatory Affairs

University of Chicago

1993–2008

Karl N. Llewellyn Distinguished Service Professor of Jurisprudence, Law School and Department of Political Science

Fast facts

Is the founder and director of the Program on Behavioral Economics and Public Policy at Harvard Law School

Has testified before numerous congressional committees and participated in constitution-making and law-reform activities in many nations

Has written numerous articles and books, including *Noise: A Flaw in Human Judgement* (Little, Brown Spark, 2021), with Daniel Kahneman and Olivier Sibony

Is the recipient of the 2018 Holberg Prize, awarded to a scholar who has made outstanding contributions to research in the arts and humanities, the social sciences, law, or theology

Is a member of the American Academy of Arts and Sciences, the American Law Institute, and the American Philosophical Society

Photo © Harvard Law School

concept? It's been a concern, sure. For the past 13 years, I've been signing copies of the book with the note, "Nudge for good," which was meant as a plea. But I don't think bad people need our book to do bad things.

Cass Sunstein: In the book, we refer to a bill of rights for nudging. Nudges should satisfy certain constraints—that is, they should be transparent, not covert or hidden. They should be in the interests of the people who are being nudged and consistent with their values. They should be subject to political safeguards, in the sense that if the people don't like them, they should be able to say, "We don't want that one." And they should be consistent with constitutional understandings in the relevant nation. We're very focused on ensuring that nudges are compatible with human dignity. If you're nudged and you think, "That was awful. Why did that happen? I'm sadder and poorer," that's an unethical nudge.

McKinsey: How have advances in technology changed the practice of nudging?

Cass Sunstein: Technology enables something we call smart disclosure. If you have a cell phone—most people do—or a credit card—most people do—you get information somewhere, somehow, about your usage. Under the rules of smart disclosure, there would be simple, easily accessible, machine-readable information about your own data. You could compare your current cell-phone usage with the usage in a previous period and, possibly, with other people's usage, so long as everyone's privacy is respected. With more information about your credit-card usage, you could see that something important is getting underfunded relative to other things and make better choices.

Richard Thaler: Or suppose your kid is allergic to peanuts. You'd like to buy things that don't have peanuts. You could start picking up every package and scanning all the ingredients—hopefully, you have good eyesight or glasses. That's a nuisance. But if you're a member of a shoppers' club or a supermarket, they know everything you've bought, right? If they could make the technology work right, you could go to the store's website and

download, with one click, a file that lists everything you've bought in the past six months. With one more click, you could send that file to another website, NoPeanuts.com, and they could filter it: "Don't buy those 20 things; here are some suggested substitutes." That's smart disclosure. We should be able to do this for everything, for all our own data.

Also, there are connectivity devices, like fitness bands and smart watches, that allow people to nudge more efficiently and effectively. I was on a video call with a few academics and a company that is trying to help people deal with diabetes. We were discussing the use of glucose monitors that would be somewhere on your body, and maybe your phone starts beeping after the first bite of that ice-cream sundae. There are lots of ways an inobtrusive thing on your wrist can help you make better choices—even if it's not always perfect.

McKinsey: The increased use of technology and smart disclosures seem important for reducing sludge in decision making. That's one of the new concepts you introduce in this edition of the book. What is sludge?

Cass Sunstein: Think of it as frictions or burdens or barriers that make it hard for you to get where you want to go. It's the company that keeps you waiting on the phone for hours to resolve an issue with a product. Or if you're trying to get a permit to build something or to do some kind of job that you're qualified for, you may have to fill out a 40-page form, go in for an interview, deal with six people who are hard to get ahold of—that's sludge. By the latest counts, the US government imposes 11 billion annual hours of paperwork on people. Some of it is justified; you can have cases where people are rightly asked to prove something, and that takes some administrative burdens to navigate. But often, the level of sludge that people are asked to endure is much too high. It's like a wall between people and something that can make their lives much better.

Richard Thaler: Think about the COVID-19 vaccination process. Every state set up its own rules, and most had mostly sensible priorities: "Let's vaccinate older people and healthcare workers first,



Richard Thaler

Education

Holds a PhD and a master's degree in economics from the University of Rochester and a bachelor's degree in economics from Case Western Reserve University

Career highlights

University of Chicago Booth School of Business (1995–present)

Charles R. Walgreen Distinguished Service Professor of Behavioral Science and Economics, as well as director of the Center for Decision Research

Fast facts

Was awarded the 2017 Nobel Prize in Economic Sciences

Is the author of *Misbehaving: The Making of Behavioral Economics* (W. W. Norton & Company, 2015)

Is a member of the National Academy of Sciences and the American Academy of Arts and Sciences, and is a former president of the American Economic Association

Photo by France Leclerc

since they are among the most vulnerable, then educators," and so forth. All those rules are well meaning, but they still added sludge to the process. Officials had to determine—in the category of educator, for instance—"do we include classroom teachers who were working remotely and the superintendent of the school district, who doesn't interact with children directly?" Or think about the logistics of how vaccines were administered. One COVID-19 vaccine came in six-dose vials. If you gave one shot and stopped there, the other five would be wasted. But when some sites opened up the vaccination opportunity more widely, so they wouldn't have to throw vials out, they got into trouble. That's another example of sludge.

McKinsey: If I'm an executive, how should I think about reducing sludge and designing and deploying nudges in my organization?

Cass Sunstein: Dick and I have both learned that the best way for organizations to reduce sludge and develop a capability in nudging is to bring in

people who have some training in this area. It may be that they studied behavioral economics at university, or they have experience in the field with nudging.

It's no secret that social media companies have behavioral expertise which, in some cases, they're using for good. Some companies that sell food and drink are thinking hard about how to use nudges to increase profits and, simultaneously, do better by their customers.

The second-best thing, however, which can help a lot, is to train people in-house on the basics of behavioral science or behavioral economics. It's not that technically complicated. And if you have people who are willing, who have fun with it, and who are eager—maybe they are doing this as half of their job—they can make a massive difference within a company.

McKinsey: You mentioned the word "fun"—and it is the theme of an entire chapter in the new book. How is nudging fun? Or how can it be fun?

Cass Sunstein: There's increasing research showing that if people find it fun to do something, then they're going to do it, even if it's a departure from what they're used to. There are plenty of examples from the private sector—Amazon, for instance, sells products that involve very little packaging, or “frustration free” packaging. It's fun. The product arrives; you open it up; there it is. The underlying nudge is actually about sustainability and the environment—no plastics, no wires, less solid waste to dispose of. It's an environmental plus, but it's billed as fun. And it genuinely is fun. In dealing with COVID-19, some countries had slogans or themes focused on the fun things you could do during the lockdown; these campaigns showed real wit and humor but also reflected a very good behavior-change strategy. We are very much focused, in this book, on fun as a strategy for behavior change.

McKinsey: Is there any personal behavior you've nudged yourself out of?

Richard Thaler: No, I'm basically perfect, you know [laughs]. We all know our weaknesses, I think. When I was a young professor, I would often do things like promise to present a paper at some conference nine months on, just to make sure that there would be a paper to present. When we agreed to this interview, I told whoever was involved, “Make sure to send me a calendar invite.” We professors aren't called absent minded for no reason. I make lists. If I get sent to the supermarket, my rule is if there are more than two things, I need a list.

Cass Sunstein: I have an intense aversion to cruelty or bullying. Even after the first edition of *Nudge* and before the second, I would be stern and reactive

to someone who was cruel. But if you tell a bully they're a bully, they'll argue, “No, I was right” or “I didn't mean anything by it.” Now, I have this phrase going through my head a lot: each of us, in some sense, is the hero of our own life. We all have a narrative that puts us in a better light than others might see us in. So I try to remember this when I see others act in ways that I wish they hadn't. I'm sure I wouldn't have had as much clarity on this dynamic without my work on the book.

McKinsey: Is this *really* the final edition?

Cass Sunstein: Well, there is a little bit of a dispute between the authors about this. I'd like to think that “the final edition” has a tiny question mark in parenthesis next to it. But the fact that we approached this as the final edition gave us the sense that this was a real chance to try to do it right. Our hope is that if you're in business, medicine, law, academia, or elsewhere, the book will have something for you. It covers the deep issues that all of us, at least sometimes, think about—freedom and what it means, choice and how wonderful it often (but not always) is, and well-being and what that is and how to achieve it.

Richard Thaler: In the book we talk about commitment strategies. If you want to quit smoking, you don't keep any cigarettes at home. If you want to save for retirement, you make sure to take money out of your paycheck before you can spend it. If you think completely rewriting an already successful book is crazy, and you want to make sure you never do it again, you call it “the final edition” [laughs]. So if Cass wants to write another edition, it will have to be bylined “Cass Sunstein and former colleague Richard Thaler.”

Cass Sunstein is the Robert Walmsley University Professor at Harvard Law School. **Richard Thaler** is the Charles R. Walgreen Distinguished Service Professor of Behavioral Science and Economics at the University of Chicago Booth School of Business. This interview was conducted by **Roberta Fusaro**, an executive editor of McKinsey Publishing, in McKinsey's Waltham, Massachusetts, office, and by **Julia Sperling-Magro**, a partner in the Frankfurt office.

Designed by McKinsey Global Publishing
Copyright © 2021 McKinsey & Company. All rights reserved.