



Nudge theory, a new prospects to the modern business

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Abstract

Nudge is a concept in behavioral science which gives positive reinforcement and indirect suggestions to influence the behavior and decision makings of individual or groups. This concept is popularized from 2008 after publishing a book *Nudge: Improving Decisions about Health, Wealth, and Happiness* by Richard Thaler and Cass Sunstein. Nudge theory has a prominent relevance in the various space of real life chiefly in Business. In the present study, the researcher tried to find the application of Nudge Theory in Business Management. Data were collected from the books, magazine, newspapers, and internet. It was found that the Nudge theory has a prominent application in Business Management notably in sales, marketing, human resource, and finance management.

Keywords: nudge, behavioral economics, rational decision-making, real life events, business management

Introduction

Allergic eye disease has been considered as a common ocular condition encountered in clinical practice. Vernal keratoconjunctivitis (VKC) is recurrent, bilateral interstitial, self-limiting, allergic inflammation of the conjunctiva having a periodic seasonal incidence which subsequently affects cornea. Worldwide the incidence of VKC has been reported in most of the continents. Indian population is also significantly present with

Suppose you are the principal of a school and you want your student to be more conscious about their health. Do you think that students would be more conscious about their health by putting a certain poster on the wall of the corridor Of course, it is extremely difficult to imparting health education by displaying health chart on the wall of the corridor or on the notice board of the classroom But if you put that chart on the wall of the school canteen then it will definitely change the student's attitude. They will give much importance to their health. Why is it happening? In an ideal world, people would always make optimal decisions in order to get the greatest benefits and satisfaction. In economics, the rational choice theory states that when people are under scarcity they always prefer the option which provides maximum satisfaction. This theory states that people always consider various constraints, costs, and benefits from each option available to them for making a rational decision. The rational man has self-control, and he is unmoved by his feelings from the best decision to himself. Behavioral economics states that no person is rational and are not always make rational decisions. Hence, it draws on psychology and economics to understand the irrational behavior of people and to find the answer to the question of why and how the individuals do not follow the predictions of economic models. This leads to the development of nudge theory.

Statement of the problem

Nudge theory plays a good role in the decision-making process of people. This concept has a wide scope in the society. It can use for the development of the public because it concerned the psychological aspects of the human mind. Rather than making certain punishment, it is better to make public more responsible

by using certain techniques in psychology. Nudge theory helps to attain this aim. In order to gain this aspiration, it is important to understand the application of Nudge theory. It also important in Business management because it studies the behavioral pattern of the customers. By productively using these techniques it creates more customer satisfaction and thereby profit. Here the researcher wants to understand the applicability of Nudge Theory in Business Management.

Objectives of the study

- To comprehend the concept of Nudge.
- To find the application of Nudge Theory in the real life.
- To analyze the significance of Nudge theory in the Business Management by making a critical analysis of it application.

Research methodology

Secondary data was used for the study and it was collected from the various textbooks, magazine, newspapers, and internet.

What is Nudge Theory?

Generally speaking, the nudge is light touch or push which point someone in the right direction. Nudge theory is a theory which provides certain clues that support decision-making. Rather than penalizing the people financially, it is about making their decision-making process easier. This theory existed from the mid-1990s but became famous after publishing a book "*Nudge: Improving Decisions about Health, Wealth and Happiness*" by Richard Thaler and Cass Sunstein in 2008. They wrote: By understanding individual behavior we can provide the best to them and their family. Nudge theory is one of the latest developments in the behavioral economics which aims to bring psychology back to economics.

Real life examples of Nudge theory

Real life examples of Nudge theory is an idea grounded in the behavioral science. It suggests certain positive reinforcement and providing indirect suggestions which can influence their decisions and actions without them even realizing. Here are just a few real-life examples of Nudge Theory.

- The American grocery stores placed green arrows on the floor leading to the fruit and vegetable section.
- When entered into a restaurant we will often see one item which is much more expensive than anything else on the menu. The restaurant does not expect you to buy that item. Instead, buy the second most expensive item. When compare relative price items customers always prefer the less expensive one.
- In the UK a scheme where each home will be given to bins for regular waste and other for recyclable materials. The second one is three times bigger than the first. By this technique, Government hopes that people will recycle more as to the recycle bin.
- An experiment in the Philippines provides saving accounts to the smokers for six months. At the end of this period, a urine test is conducted on the smokers for testing nicotine. If they passed this test they will get the money back or it will be given to the charity.
- In some schools, they display a chart showing healthy foods in the canteen which helps the students to choose healthy food items.
- In the UK, people make arrears in tax payment get a message: "9 out of 10 people in your area are up to date with tax payment".

Application of nudge theory in Business Management

The invention of nudge theory boosted the effective management of the business in the corporate world. It concerns the four major aspects of business management: managing people, managing sales, managing operations and managing finances. Following are the major application of nudge theory in Business management; In the Human resource management, it can use to manage the employee compliance. For example, when we introduce a new training programme certain employees may make a delay in their training programmes. In that situation, the manager may impose certain punishment on them. It is a negative motivation will not help to improve their productivity. Instead of that, we can use a message: "Almost everyone has already completed the training, please make sure you do as well." This is more effective than direct threats. Nudge theory has huge potential when we apply it in sales and marketing. The way we describe the product decide whether it is desirable or not. For example, consider the invention of Philips — the Air Fryer, which cooks the food with 75% less fat. But because they named it 'Fryer' it may create confusion in the minds of health-conscious consumers. Another example of the nudge in marketing is the "Most popular" label. For instance, if your website offers several subscriptions when you mark one as the Most Popular subscription, it catches the eyes of customers and makes a subtle suggestion. In the area of finance, the organization has got nudging right. For example, In the UK a microfinance lending site always provides instant feedback to people for encouraging them to give microloans to small businesses in less developed countries. By showing where their money went which motivate them to lend a lot more.

Conclusion

Rational decision-making is very important in one's life. Choosing a rational decision among the various options is not an easy task. It requires a lot of efforts and time. Whatever we put

our efforts we can't make a rational decision because it would be affected by our mental feelings and our external environment. The study for finding the reason behinds this irrational behavior leads to the development of nudge theory. As per this theory, various psychological facts affects one's decision. And the interesting matter is that we can control others behavior by using various nudge techniques. This highly useful in Business Management. Because it can use to understand the customer's behavior and to use various strategy motivating them to purchase our product. It also highly beneficial in financing and human resource management. For bringing out all these advantages we should clearly understand the concept of Nudge Theory. If it wrongly interprets it will lead to complete deface of our Business.

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