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Dan Ariely on irrationality in the workplace

The behavioral economist explains why executives need to recognize—and embrace—the irrational forces that affect themselves and their employees.

Although Dan Ariely is an academic by trade, he is a pragmatist at heart. The Duke professor and best-selling author brings his theories to light through practical applications and behavioral experiments, where irrationality is almost always certain. Ariely has written two books on the subject—*The Upside of Irrationality*[1] and *Predictably Irrational*[2]—and recently sat down with Olivier Sibony, a director in McKinsey's Paris office, to share his insights into human behavior that can help companies make better decisions.

When to trust your gut

The *Quarterly*: *What distinguishes a situation when an executive should trust his intuition or his gut feeling, versus one where he should really pause and think?*

Dan Ariely: One way to think about it is the following: imagine you stand on a field and you have a soccer ball and you kick it. You close your eyes and you kick it and then you open your eyes and you try to predict, where did the ball fall? Imagine you do this a thousand times; after a while you know exactly the relationship between your kick and where the ball is. Those are the conditions in which intuitions are correct—when we have plenty of experience and we have unambiguous feedback.

That's learning, right? And we're very good at it. But imagine something else happened. Imagine you close your eyes, you kick the ball, and then somebody picked it up and moved it 50 feet to the right or to the left or any kind of other random component. Then ask yourself, how good will you be in predicting where it would land? And the answer is: terrible.

The moment I add a random component, performance goes away very quickly. And the world in which executives live in is a world with lots of random elements. Now I don't mean random that somebody really moves the ball, but you have a random component here, which you don't control—it's controlled by your competitors, the weather; there's lots of things that are outside of your consideration. And it turns out, in those worlds, people are really bad. This actually, I think, brings us to the most important underutilized tools for management, which [are] experiments. You say, I can use my intuition, I can use data that tells me something about what might happen, but not for sure, or I can implement something and do an experiment. I am baffled by why companies don't do more experiments.

The benefits of irrationality

The *Quarterly*: *Lots of people ask us if making rational decisions all the time is necessarily a good thing. Is there a role for emotion? Is there a role for a little bit of irrational thinking in business decision making, in your view?*

[1] *The Upside of Irrationality: The Unexpected Benefits of Defying Logic at Work and at Home*, New York, NY: HarperCollins, 2010.

[2] *Predictably Irrational: The Hidden Forces That Shape Our Decisions*, New York, NY: HarperCollins, 2008.

Dan Ariely: You know the trust game? So the trust game has two players, A and B. A gets $100, and he said, "A, you can do one of two things: you can either take the money and go home, or you can send it to player B.

"If you send it to player B, the money would quadruple, so by the time player B gets it, it will be $400. And player B can do one of two things: they can send you back $200 or they can go home with $400." If you are player A and you think player B is perfectly rational, you say, "Hey, I will never give him the money, because if I gave him the money he would go away."

But it turns out that lots of people do that; lots of people give the money. A lot of people pass the money to player B, and very often player B pass[es] the money back. That's kind of a place where people are irrational but it's good, right? Trust is incredibly useful in society. If you're a CEO and you don't trust who you're dealing with, it's incredibly devastating.

Here's part two of the story: imagine you're player A, you send your $100, and player B decide[s] to go home with the money. They come to you and they say, "Sorry, player A, player B decided to go away with all your money, but I'll tell you what: if you go into your checking account and you give me, then, money, for every dollar you would give me, I will go, I will hunt player B down, and I will take $2 away from him." And now you can ask yourself whether you would spend more of your own money to make player B suffer.

The *Quarterly*: *For revenge.*

Dan Ariely: For revenge. What do you think?

The *Quarterly*: *Oh, I would.*

Dan Ariely: So here we have two instinct[s]. We have trust and we have revenge. [Neither] of them is rational, but together they're incredibly helpful. Also, revenge has done lots of things in the business world. There are lots of wonderful examples of people who got really upset with their partners or clients and decided to take revenge and show them something, and often we're incredibly motivated to come up with great things.

So I don't think rationality is the golden standard. We need to think about what creates the best structures, incentives, motivation—and rationality is not always that. In fact, think about what [would] happen if you lived in a city where everybody was perfectly rational, where everybody was always calculating what's just good for them—what's my cost, what's my benefit, what will I get. How much would people work? How much would people steal? This will not be a place that we would want to live in. In fact, businesses, I think, need to understand the irrationality of their employees, of their customers, and take it into account.

Internal motivation

The *Quarterly*: *Motivation—companies don't experiment very willingly about how to motivate people in different ways. You've done a lot of research about that, actually.*

Dan Ariely: People don't just care about money. We care about competition and completion, and we care about self-fulfillment and friendship and obligation—all kinds of things.

I sat in front of a group that spent two years designing what they thought was the best product for that company. The first thing they told me was that their CEO canceled their project a week before I came, and they were completely devastated. I asked them, I said, "How many people show up for work later?" They all raised their hand. I said, "How many people go home earlier than you used to?" They all raised their hand. I said, "How many people fudge their expense reports more than you used to?" They didn't raise their hand, but they took me for dinner.

The Quarterly: *Here's a question for you, though. This will happen, right? Projects do get canceled, mergers do get pulled off. What's your advice to the executives who manage those teams in terms of keeping the motivation of their people?*

Dan Ariely: Yes. So I asked them, I said, "What could your CEO have done?" And they came up with ideas themselves. They said he could have let them present their ideas in front of the whole company. He could have created a few demos and let them run around the company.

He could have gotten them to tell him what part of the technology could fit better with other parts of the organization. Now here's the trick—every one of those efforts to save people's motivation would have taken time and energy and money.

The CEO, if he has the perspective that there's no internal motivation, should not spend that energy. But not only is it important, people dramatically underestimate it, and lots of terrible things have happened to this group since.

Conflicts of interest

Dan Ariely: The basic question is as follow[s]: imagine you're a banker on Wall Street, and imagine you could make $5 million a year if you could only see [the] mortgage-backed security as a good product. Don't you think that, under those condition[s], you too could see them as better than they truly are. I don't mean by [lying], that you would say, "Oh, I don't think they're good, but I'll pretend"—I think really change your opinion.

The *Quarterly*: *Really convincing yourself of something that happens to be in your interest.*

Dan Ariely: I don't think you can convince yourself from thinking that or convincing [yourself] that they're wonderful, but you could move along this dimension. The more complex and difficult and demanding different equation and parameters, the more you could do that. And if you saw everybody around you, you could do it more easily as well. That's the basic issue.

Here's another thing: would you be interested in going in front of a judge—imagine you were accused of something—who got paid 10 percent of the verdict that he passed on you.

The *Quarterly*: *That probably wouldn't seem like a good way for justice to be rendered.*

Dan Ariely: That's right. So why are we willing to do it in banking and why are we willing to do it in health care? What's interesting is that people don't see how conflicts of interest work on them. Again—you know, I gave a lecture to 2,000 physicians and I ask, "How many people here experience conflicts of interests?" Zero.

I say, "How many people here think that the majority of the people in the room experience conflict of interests?" Everybody raised their hands. The trick is that people just don't see it coming. There's a beautiful research by Read Montague.[3] He put people in an fMRI[4] machine that could image their brain, and he presented them art from two galleries—Blue Moon and Lone Wolf.

To some people he said, "Your participation in this study is sponsored by Blue Moon"; to the other one he said, "It's Lone Wolf. Now go ahead, look at the art, and tell me how much you like it." And people said they like more the art that came from their sponsoring gallery, as if it means something. But more than that, the [part of the brain] that reflects pleasure reacted more positively.

Power and irrationality

The *Quarterly*: *Why is it that those people who have risen to the top of their professions, who are successful in every possible way, seem to be irrational at the time of making important decisions?*

Dan Ariely: I think that the people who rise to the top are probably more overconfident than other people. Then again, it's good, it helps them rise to the top, but it also has a curse within it.

And finally, there's a question of what happens when we make really big decisions. Do we become more rational? It turns out that big decisions are not very different from small

[3]Dr. Read Montague, professor of neuroscience and director of the Human Neuroimaging Laboratory at Baylor College of Medicine, in Houston.

[4]Functional magnetic resonance imaging.

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decision[s]. In fact, when a decision is very big and very stressful and very complex, some of the irrationalities actually become larger.

Intuition in decision making

The *Quarterly*: *You write, "I was just as bad myself at making decisions as everyone else I write about." Is there any real hope for people who simply read your books as opposed to writing them, to improve the quality of their decision making, and to become less irrational?*

Dan Ariely: Recently, we were working with a fast-food place. The CEO of that company came to my class and after the class he said, "Look, tell me what to do. I sell this fast-food Chinese stuff, we sell lots of it, and people love the most awful thing on the menu. There's lots of good things on the menu that are not as bad."

The *Quarterly*: *But they don't buy them.*

Dan Ariely: "Seventy percent of my sales go from this thing that is double-fried, sweet, and unbelievably bad. What can we do?" So we did an experiment. He gave us one store and we wrote calorie information, labeling. What effect did it have? Nothing, zero. It's not about information. It's about the fact that you see this fatty food and it's tempting.

So, for example, what would happen if we asked people, "Would you be willing to take half a portion of the main dish?" Turns out people are not that interested in that. But when we ask them to take half a portion of the side dish of rice, more than 40 percent of the people are willing to do it, and they cut 250 calories by doing that. That's a big achievement.

The *Quarterly*: *But you also cut the revenues.*

Dan Ariely: No, we don't. We don't give them any discount.

The *Quarterly*: *Oh, you give them a half order for the same price.*

Dan Ariely: So we just say, "Would you be interested today [to] get half an order of rice?" Now, why are people doing it? It's a little bit like Ulysses and the siren. You remember the story: Ulysses tied himself to the mast, put [beeswax] in his ear to make sure that when temptation comes he would not be able to be tempted. And it turns out that people have some intuition about those issues. When you propose to them a Ulysses mechanism, they take it.