**Do Behavioral Nudges Work on Organizations?**

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**Summary.**

Behavioral economics has shown that nudges can be used to help individuals act in their best interests. But can you apply similar tools to change organizational behavior? Researchers collaborated with Ontario’s Ministry of Finance to nudge organizations that failed to file an annual payroll tax return. They found that simple changes to a standard letter sent to late filers garnered 61 percent more in remitted taxes within 10 days of receipt of the letter, saving the ministry nearly $6,000 in collection costs and saving the organizations money in additional penalties and interest.

More than a decade of research in behavioral economics has taught us that individuals are “nudge-able.” The design of seemingly small contextual factors — such as simplification and planning prompts that clearly articulate the when, where, and how of action — can be used to induce individuals to act in their best interests in a variety of areas, including their [health](https://hbr.org/2018/04/the-best-flu-prevention-might-be-behavioral-economics), their [finances](https://hbr.org/2018/07/how-behavioral-economics-could-help-reduce-credit-card-delinquency), and their [education](https://hbr.org/2016/11/small-nudges-can-improve-how-students-apply-to-college).

Yet, despite the breadth of insights on how to improve individuals’ behaviors, we know relatively little about how, or even whether, such tools influence organizational behavior. Should we expect organizations to respond any differently to nudges?

Behavioral economics has taught us that human behavior is context dependent, and researchers in the fields of [social psychology](https://doi.apa.org/doiLanding?doi=10.1037%2F0033-295X.103.4.687) and [organizational behavior](https://hbr.org/2016/07/designing-a-bias-free-organization) have studied the many ways in which group contexts can amplify some psychological processes and diminish others. On the one hand, organizations are subject to competitive pressures, which incentivize profit maximization, and they can put in place cognitive supports, like training, bureaucratization, and technology to help employees make better decisions. This might lead us to predict that organizational decision making is already sufficiently optimized and a nudge will provide little to no additional help. On the other hand, phenomena like groupthink, polarization, diffusion of responsibility, and social loafing are biases that uniquely afflict group decision-making, suggesting that the nudges which work for individuals may be a poor fix for what can cause organizations to go off course.

To help address the question of organizational nudge-ability, we collaborated with the Ministry of Finance in Ontario. Our [research](https://pubsonline.informs.org/doi/abs/10.1287/mnsc.2020.3744) focused on organizations that failed to file an annual payroll tax return. Typically, the finance ministry informed delinquent organizations by mail one week after their due date that that their tax return has not been received and reminded them to file the return immediately to prevent further actions. The letter assumed that organizations simply forgot or were procrastinating because they did not take the delinquency seriously enough. So we tested one modification to this standard late-filing notice to see if it would help overcome this type of inaction.

Our modified version re-organized the letter into explicit step-by-step instructions of how and where to file a return, and it specified a deadline. The specific deadline was chosen for two reasons. First, it marked the time when additional collection efforts would be initiated, including staffing of call centers, and hiring of collection agencies. Second, it was a more concrete goal than asking someone to pay “immediately.” Stylistically, we used second-person pronouns and the active voice, without significantly changing the meaning or reading difficulty. We expected these small modifications together would help those organizations who intended to pay their tax act upon this intention.

In each of two consecutive years, we randomly assigned all late-filers, around 6,300 and 6,200 organizations, respectively, to one of the two letters — the ministry’s original or our modified version. We found that compared with the standard late-filing notice, our prompt with the concrete timeframe increased delinquent organizations’ likelihood to comply and file their annual taxes four or five days sooner, before the start of additional, more costly collection efforts.

What does this mean in dollars? In year one, our modified letter garnered 61 percent more in remitted taxes, prior to the start of additional collection efforts, resulting in $288,335 being collected within 10 days of mailing the modified letter and saving the government $5,766 in collection costs. Had our modified letter been sent to all late-filing organizations, the government could have expected to receive an additional $475,438 in remittances prior to initiating additional collection measures and saved some $9,508 in collection costs. The results in year two were similar.

Having conducted our study for two consecutive years, we found no evidence that the effect of our letter persisted for more than one year. It’s not surprising that a single letter did not establish a self-sustaining organizational culture. But that result serves as a reminder that when it comes to nudges, timing is important, if not everything. More importantly, however, we did find that the effect of our letters was consistent over time. Our modified version of the letter worked equally well, if not even better when organizations received it for a second time, suggesting that sustained nudges can lead to sustained organizational change.

Our intervention advanced the goals of the government and the public it serves: It saved the government money in collection costs, saved organizations money in additional penalties and interest, and increased collected taxes. Given that implementing this “nudge” involves zero marginal costs, and that we found no evidence that repeated exposure to the letter diminished its effect, the government is implementing the experimental letter as standard.

Organizations are as complex and diverse as the people they employ, and much work remains to be done on the intersection of behavioral economics and organizational behavior. What we have learned is that the foibles that can cause individuals to fail to follow through on their best intentions can persist despite the advantages of organization, and that in some instances the same tools can be applied to successfully overcome these foibles.