



WHY BEHAVIORAL INSIGHTS MATTER IN PUBLIC POLICY

Dr. Izhar bin Che Mee

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Why Behavioral Insights Matter in Public Policy

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PREFACE

The P-Insights, short for “Productivity Insights,” is an extension of the Productivity Talk (P-Talk) series, which is a flagship program under the APO Secretariat’s digital information initiative. Born out of both necessity and creativity under the prolonged COVID-19 pandemic, the interactive, livestreamed P-Talks bring practitioners, experts, policymakers, and ordinary citizens from all walks of life with a passion for productivity to share their experience, views, and practical tips on productivity improvement.

With speakers from every corner of the world, the P-Talks effectively convey productivity information to APO member countries and beyond. However, it was recognized that many of the P-Talk speakers had much more to offer beyond the 60-minute presentations and Q&A sessions that are the hallmarks of the series. To take full advantage of their broad knowledge and expertise, some were invited to elaborate on their P-Talks, resulting in this publication. It is hoped that the P-Insights will give readers a deeper understanding of the practices and applications of productivity as they are evolving during the pandemic and being adapted to meet different needs in the anticipated new normal.

INTRODUCTION

Governments' main goal is to establish good outcomes for their citizens. Good economic outcomes allow people and businesses to perform efficiently and fairly. Governments should ensure that the economy can grow, thus generating more quality jobs. Environmental outcomes include the preservation of natural resources for future generations. Therefore, governments need to address climate change as well as pollution issues.

Good public services such as health, education, security, and welfare are vital for citizens. Social outcomes include healthy, educated people and a safe living environment. In addition, a healthy, educated workforce is a critical input resource for the national economy. The ultimate outcome for economic, environmental, and social well-being is to provide a good quality of life.

How do governments achieve those outcomes? Each government develops policies to address issues or opportunities that arise. The standard policy tools employed are regulations, incentives, and information. These are carefully designed to control the behavior of people to achieve the intended outcomes. Policies are delivered through programs that produce outputs to be received by citizens. The correct outputs could change behavior or encourage appropriate actions, thus realizing short-term goals.

Regulations are established through the formulation of laws. To enforce laws, the government sets up public organizations. Regulations are excellent to deter misbehavior, although the implementation of rules is costly to the government. The fixed cost of funding public organizations takes a significant portion of the funds available. Regulations also take time to amend and typically need approval from parliament or an equivalent body.

A second policy tool is incentives in various forms such as subsidies, grants, tax exemptions, etc. The primary purpose of incentives is to motivate people to change behavior to achieve the outcomes desired by the government. For

example, to encourage investment in the country, several incentives are typically offered. Public organizations manage incentive delivery, while governments have to fund incentive programs up front. Therefore, incentive management and funding are also costly to governments. Incentive-based programs are highly dependent on government funds, and this dependency carries implementation risks due to a lack of financial resources.

Governments also use information to create awareness among the public of the need to change behavior. For example, campaigns via electronic media, newspapers, and others have long been common. Information also could include capacity-building programs for targeted groups. However, implementing information-based programs is also costly. Information alone has been proved not to be fully effective in changing behavior. It can create awareness, but is insufficient to encourage most people to adopt behavioral change in most cases. For example, entrepreneurs are aware of the need to become exporters, but until they export their goods or services, which is the government's hoped-for outcome, they do not change.

All governments use the three policy tools. However, some desired outcomes cannot be achieved even though significant resources are allocated and spent. The lack of results means that people do not change their behavior as intended. Why does this situation occur? Why do people not respond to interventions or public policies? Should people not act rationally to benefit from the policies? These are the questions explored in this article.

The following sections introduce behavioral insights and their importance and usage in public policy, especially in Malaysia. Examples will be highlighted, along with other successful cases implemented in Malaysia. Finally, a special section explaining how Malaysia systematically institutionalizes behavioral insight practices in public policy should be interesting for readers.

The article is written from firsthand experience in developing behavioral insights in public policy through the Malaysia Productivity Corporation (MPC). The author was actively involved in developing a strategic plan to utilize behavioral insights in national public policy and led several major insight initiatives resulting in positive economic outcomes. In addition, the author designed training courses on behavioral insights in public policy for classroom and microlearning and served as the lead trainer. A detailed

framework for implementing behavioral insights in public policy was created, and the author provided technical feedback on most behavioral insight projects undertaken by the MPC.

The overall subject is how to change public behavior. This report focuses on the process during which people make decisions or choices. The process can be facilitated at decision-making points by providing an appropriate context, including modifying the existing one, to make good decisions to achieve the outcomes desired by the government. The results are greater public good and a more cost-effective government. The resulting government savings can be used to provide new, higher-quality public services. Knowledge of these topics is derived from behavioral science, behavioral economics, and behavioral insights. In facilitating decision-making processes, we need to ensure that they are ethical and that the public does not experience bad outcomes.

The behavioral insight approach systematically understands the target group's current behaviors and barriers and motivation to adopt new behavior. Based on the obstacles and reasons for change, we can work on closing behavioral gaps through systematically designed experiments and collecting data on outcomes. If the effects are not significant, then the experiments can be redesigned with new solutions. Finally, positive results may lead to the development and implementation of improved public policies. The important points to note are that it is essential to understand behavioral gaps, experiments, and positive outcomes. Then the experimental results can be scaled up to become evidence-based, behaviorally informed public policies.

This article should provide answers to why behavioral insights matter in public policy. Real-life examples of projects in Malaysia are given as evidence. In addition, it should guide readers on how to organize and implement behavioral insight development programs at the national level.

WHY DO BEHAVIORAL INSIGHTS MATTER?

Why do behavioral insights matter in public policy? They are a proven public policy tool to achieve targeted outcomes. A survey conducted by the Organisation for Economic Co-operation and Development (OECD) identified more than 200 units worldwide actively pursuing behavioral insight studies in public policy [1]. Moreover, behavioral insights could be cost-effective and easier to implement than other policy tools, i.e., regulations, incentives, and information. The primary strength of behavioral insights is the focus on how humans make choices. They also make use of evidence, i.e., data and information, in deciding on areas for full policy implementation.

Behavioral insights could also be used to improve the efficiency and effectiveness of regulatory design and delivery since we are no longer making assumptions about the behavior of the target group. With better data and information about target group behavior, regulators can produce better rules. Similar situations apply to incentives and information. For example, when public organizations develop information portals, they tend to assume that the content is what people want rather than gather information on their needs, barriers, and motivations. The same is true for designing training modules, which is typically done by making assumptions about people's requirements rather than using training to address challenges in taking action or behaving as intended.

In the last decade, many initiatives have been taken using behavioral insights in various public policy sectors. The focus of behavioral insights is to facilitate change. Many proven policy outcomes have been achieved using behavioral insights as a policy tool. Policies are designed based on the understanding of human behavior, which is sometimes rational and sometimes irrational. The concept of the “nudge,” introduced by Richard Thaler and Cass Sunstein, is used in most behavioral change insight frameworks [2].

Behavioral insights promise practicality and lower cost while being easier to implement and resulting in good outcomes in many situations. Thus, behavioral insights offer governments a new policy tool that should be considered seriously for utilization in appropriate circumstances.

MALAYSIA'S BEHAVIORAL INSIGHT EXPERIENCE

Behavioral insights in public policy have been used in Malaysia for some time, although coordinated initiatives only started in 2019 when the government mandated the MPC to spearhead their applications in public policy. The primary behavioral insight initiatives are to improve economic outcomes, thus enhancing national productivity and competitiveness. The following are examples of behavioral insight applications in Malaysia.

The Malaysian government enacted a policy under which all payment transactions for public services must be cashless by the end of 2022. The Malaysia Road Transport Department embarked on a behavioral insight initiative in which six branches participated. Currently, people can either make payments in cash or in the cashless mode for all department services. The initiative started with the involvement of key stakeholders, including the top management of the department. The initial behavioral data were gathered from the department's computer system. On average, for the previous six months, it was found that cashless payments via debit or credit cards had comprised about 30% of total transactions. In other words, cashless payments were less popular than cash. The behavioral insight team decided to nudge customers by increasing the number of counters in its offices which only accepted cashless payments. In some branches, eight of 10 counters only accepted cashless payments, while the other two allowed customers to pay either in cash or cashlessly. An additional contextual nudge was that when customers collected their queue numbers, department staff nudged them by promoting the cashless mode since there were more counters for that.

Transactional data collected after one month showed that almost 99% of customers made payments cashlessly. The outcomes have been sustainable based on monthly monitoring of the data. The same results were seen at five other branches, while the control group, i.e., the branches with no nudge

efforts, showed no significant change from the initial baseline performance. The positive impact on the Road Transport Department is more efficient back-office operations due to minimal cash management. With simple nudges, the government's cashless payment policy could be put into effect.

The Malaysia Income Tax Board also undertook a successful behavioral insight initiative. Before 2006, people had to submit tax declaration forms and supporting documents manually. In 2006, the board introduced an e-filing system. In the beginning, the takeup rate was not as high as intended. Subsequently, the board decided to make it easier to use e-filing. One significant nudge was to prepopulate the tax declaration forms in the system based on the previous year's data. The online form also clearly displayed declaration steps and necessary information required for people to make decisions. For most, the information to be input does not vary greatly from the previous declaration. Thus, with a few changes, people can submit their tax declarations easily in less than 10 minutes. Tax payments can also be made immediately on the same platform. As a result, good outcomes for the Income Tax Board were achieved as more people starting using the new e-filing and payment system.

The following example is from a land office in one Malaysian state. Land usage status typically needs to be converted from agricultural to commercial or industrial before shops, offices, and industrial buildings can be constructed depending on the type of development project. The process of land usage conversion previously involved four different departments before a decision was made to approve it, taking an average 14 months. The long time taken to process conversion applications impacted state revenues and made investment in the state less attractive, resulting in fewer physical development projects and less job creation.

After a detailed study, the behavioral insight team found that the instruments used in documentation and producing reports to be shared among the four departments were the main barriers to better performance. The team nudged public organization staff by changing the instruments to a single "super form" that included all the data and information required to be submitted from one department to another. As a result, processing time was significantly reduced to about two months, a 600% improvement in productivity was recorded, and more land conversion applications were submitted, resulting in increased land premium income to the state. The early signs indicate that more investors are keen to undertake development in the state since they can now receive speedier

returns on investment. The state has started to digitalize the improved process, which will result in better efficiency in the land conversion process. Due to the transformation, the state is becoming more productive and competitive in attracting investors.

Many high-impact businesses are eager to invest in Malaysia and have requested that regulators speed up compliance processes to enable them to start operating sooner and recoup faster returns on their investments. Development generally takes about 24 months for industrial buildings from the submission of planning approval permission requests until installation is completed. Subsequently, investors need to apply for necessary operating licenses. The process involves about 15 regulators.

As an example, a high-technology medical glove factory with an area of 30 acres needed to start operating within 10 months from the date of planning approval submission. That was a challenge that had never been met before in a project of that size and cost. The author nudged regulators by focusing on the outcome of creating 2,500 new quality jobs. In facilitating the start of business operation, the author ensured that all parties collaborated closely, including the investor, consultants, and all 15 land usage departments involved.

Another strategy was to allow some regulatory compliance processes to run in parallel. An additional significant move was to allow heavy machinery to be moved into the buildings and commissioned during the final construction phase, which saved considerable time and cost. Finally, the factory was able to start operating within 10 months of the date of its application, which was a record in Malaysia. As a result, more businesses were attracted to the same area, which brought billions of dollars in investment and created about 10,000 new jobs. These results will stimulate significant spinoff economic activities such as demand for housing, food, retail stores, and other services in the area. No changes in existing rules were needed, under which all regulatory requirements were complied with.

The construction industry in Malaysia is governed by the Construction Industry Development Board (CIDB). All construction companies or contractors must register with the CIDB before conducting business. However, before 2018, the contractor registration process took 14 days to be approved. In addition, contractors had to make at least two visits to the nearest CIDB branches for

registration formalities. Thus, the author had an opportunity to lead the reform of the contractor registration business model.

Several nudges were utilized to change the mindset of top CIDB management, including role-playing simulation. Once top managers were convinced that major reform was needed, a new, more efficient business model was developed. Based on that new model, a computer application was also developed. Currently, contractors apply for registration online, and processing requires seven minutes instead of 14 days. A 1,900% improvement in productivity was seen. Due to the easier online registration, more new construction companies registered. Formerly, about 250 staff needed to process about 1,200 various contractors' transactions per day through 18 physical branches. With the latest computerized business model, about 25 processing staff handle 2,400 related applications per day. The extra resources are redeployed for higher-value roles in the organization. Contractors are happy due to lower costs and much-improved service quality. The CIDB is more efficient, and the industry is growing due to easier regulatory compliance. The government has also achieved better overall outcomes in this case.

The primary focus in Malaysia is applying behavioral insights to stimulate economic development due to the expected immediate and long-term impacts. For example, the COVID-19 pandemic pushed us to speed up economic growth-related processes, mainly land and building development. The MPC is also working on overdue tax collection with local councils. This problem is common for most local councils throughout the country. Those taxes are vital to fund public services such as trash collection and area maintenance.

Besides the various nudges in economic-related activities, the MPC has started to collaborate with public organizations to improve the effectiveness of main programs through the use of behavioral insights. These include increasing the number of women and youth exporters and enhancing the participation of SMEs in exporters' repositories.

Several public health initiatives include reducing obesity and promoting the drinking of water among primary schoolchildren. The initial experiments included nudging their parents to participate actively in the program. The initial outcome appears promising and could potentially be scaled up to more schools soon.

The government, in particular the Ministry of Health, nudges the public to encourage registration for COVID-19 vaccinations. Many other countries are undertaking similar initiatives, in addition to providing information on measures to prevent infection across various electronic channels.

Like many other countries, Malaysia employed behavioral insights to reduce the consumption of single-use plastic bags when shopping for groceries. Shoppers must now pay 20 cents for each plastic bag. From the author's observations, that simple nudge resulted in a 70% reduction in plastic bag usage. Over the years, the number of shoppers who bring their own reusable/reused bags has steadily increased.

The MPC is expanding the use of behavioral insights to cover more aspects of the economy, society, and environment. In addition, the MPC is increasing collaboration with public organizations and providing capacity-building and advisory services in many behavioral insight-based public policy projects. A willingness to explore the subject is exhibited by most top managers of public organizations. That top-down commitment is one of the crucial factors for the success of behavioral insight initiatives.

The above real-life outcome examples in Malaysia should convince us that behavioral insights matter in public policy. Now is the time to start exploring, experimenting with, and implementing public policy based on behavioral insights. The following section describes how Malaysia started its coordinated behavioral insight program.

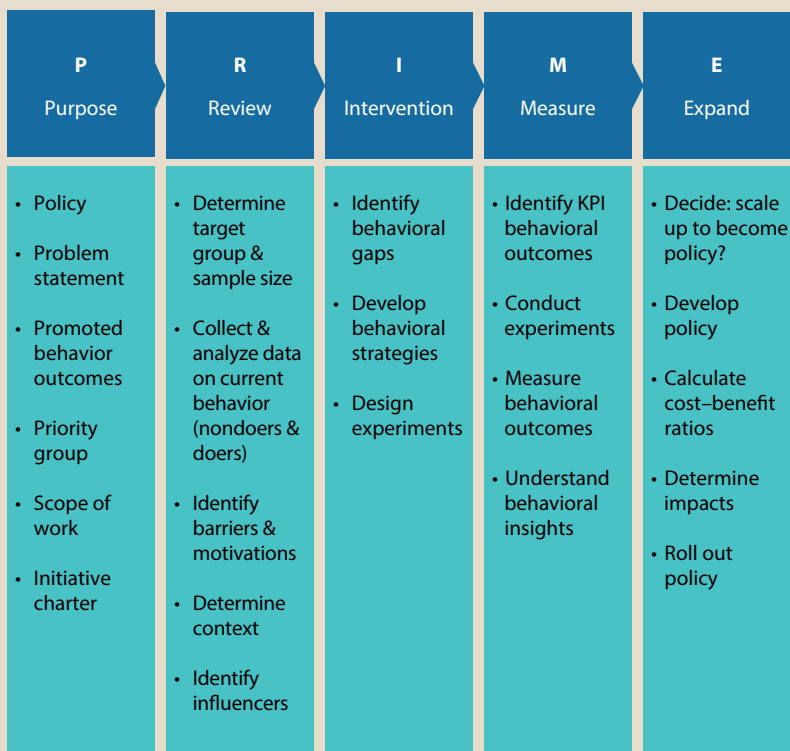
MALAYSIA INSTITUTIONALIZES BEHAVIORAL INSIGHT RESEARCH IN PUBLIC POLICY FORMULATION

The MPC is leading behavioral insight initiatives for policymaking in Malaysia. It began formulating a five-year development plan to establish a pool of 300 competent behavioral insight personnel in the public sector. An early assessment found that the subject was new to most policymakers in the public sector. It is a kind of greenfield, thus making it easier for the MPC to chart specific programs. The following section highlights some critical initiatives in the development plan.

PRIME: A Behavioral Insight Implementation Framework

A standard implementation approach is critical for the successful development of a behavioral insight program. The MPC therefore created PRIME, an acronym for “Purpose, Review, Intervention, Measure, and Expand,” as shown in Figure 1. The PRIME framework forms the basis of the structured development of the behavioral insight program and its training modules and implementation approach. Public organization staff learn how to implement behavioral insight projects through the PRIME framework.

During the purpose stage, existing policies, problem statements, desired behavioral outcomes, priority groups, project scope, and proposed initiatives are finalized. A project charter is produced which must be endorsed by the main stakeholders or sponsors. In the second stage, review, current behavioral data are collected from the target group(s). The main factors are the barriers to and motivations for adopting the promoted behavior. In addition, the context where behavioral change or decision-making takes place is identified. Finally, the influencer group(s) that could encourage the target groups’ behavioral change is identified.

FIGURE 1**PRIME BEHAVIORAL INSIGHT IMPLEMENTATION FRAMEWORK.**

Source: Malaysia Productivity Corporation (MPC).

The intervention stage identifies behavioral gaps and develops strategies to overcome barriers found in the review stage. Specific solutions for main barriers are designed, followed by the design of an experimentation method. Among popular experimentation methods is the randomized, controlled trial method, where the target group is randomly assigned to the control and noncontrol arms. The control group does not receive any interventions, while the noncontrol group experiences one or a combination of interventions.

In the measure stage, the key performance indicators for behavioral outcomes are determined. Then, the designed experiments are implemented, and the results or outcomes are measured. For example, in using a randomized,

controlled trial approach, the noncontrol and control group results are compared. If the noncontrol group outcomes produce a better result, the experiment is successful. However, if the effects are not significantly different, the project team must go back to the intervention stage to redesign the solutions. The results are the behavioral insights gained in the project.

In the final stage, expand, insights from the positive outcomes should convince the program team that the solutions could become public policy. Cost–benefit analysis and impact evaluations are also carried out at this stage to determine whether the proposed initiative should become policy.

Behavioral Insight Awareness Programs

Creating awareness of the importance of using behavioral insights in public policy formulation among key stakeholders is essential. Unfortunately, most policymakers are not familiar with the use of behavioral insights as a policy tool. In 2020, the MPC organized the first National Conference on Behavioural Insights for top management of public organizations. The conference has become an annual event to share developments in related fields and successful examples of using behavioral insights.

Another important activity is behavioral insight sharing sessions with the top management and staff of public organizations conducted online and specifically tailored for each organization. Participants appreciate behavioral insights more if the presentation examples are related to their core activities. The MPC started with federal government organizations and subsequently followed with state government organizations. Webinars on various topics of behavioral insights are also offered for the public.

Training Courses

The MPC has developed several training courses according to stage. The first, foundational course is on applying behavioral insights in public policy. It is meant as awareness training on the importance of and methods for using behavioral insights in public policy. The second course focuses on implementing behavioral insight results in public policy using the PRIME framework. Actual local case studies are included in the training to provide participants with better perspectives and understanding. Currently, the MPC is designing a few more

advanced training courses for participants to master the subject and implement behavioral insight initiatives.

Training for public organization staff, professionals from industry, and academics is conducted in online series offered free of charge. The primary purpose is to develop many talented resources on the subject of behavioral insights. An adequate number of trained personnel could lead to faster expansion of behavioral insight-based public policy implementation.

Microlearning Courses

Microlearning courses are also developed and offered online to the public for self-learning. They focus on explaining the key learning points to enhance understanding and skill. Each lesson contains a series of short videos of about five minutes. Participants can learn at their convenience since the system is accessible via the internet, including mobile phones. Two microlearning courses are open to the public, and a few more are being designed. To date, the microlearning platform known as MyLatihanMaya has received a tremendous response from participants. The best part is that the microlearning courses run by themselves, starting from participant registration, to learning the lessons, and finally issuing completion certificates. The primary role of the MPC is to promote the microlearning courses.

Behavioral Insight Projects

Implementing behavioral insight projects is an essential activity. Each project involves resources from public organizations, MPC staff, and associates or trained professionals. The project mode is collaborative, where associates give guidance on using the PRIME framework. The management of public organizations endorses the projects and commits to allocating staff. The allocated teams are actively involved and receive specific training through workshops throughout the project life cycle. Each project is run using project management approaches.

More than 30 behavioral insight projects have been conducted since 2019. They are at various implementation stages, and the average project duration is about six months. Previous sections gave a few project examples. The projects cover economic, social, and environmental topics.

Behavioral Insight Professionals

The MPC plans to support and sustain behavioral initiatives for years to come. For that reason, more professionals with knowledge and skills in implementing such projects from universities and private-sector consulting firms are needed in addition to public organization staff. With their research and project management skills, those professionals can ensure that the training programs focus on behavioral contents. They must also take the training and microlearning courses to streamline their understanding and skills in carrying out behavioral insight projects. After completion of their training, the professionals are assigned to projects, allowing them to gain specific experience. Those talented professionals also become trainers for the initial courses.

Behavioral Insight Networking

Establishing networks of organizations in the field is essential. The MPC is becoming a nucleus for behavioral insight networking in Malaysia and could become a center of excellence on the topic. Internationally, networks include the OECD and its behavioral insight team. Locally, most network participants are from public universities, private-sector firms, and public organizations. Activities are organized throughout the year to spur the development of the field in Malaysia.

Behavioral Insights in Organizations

The MPC's latest venture is to experiment with various behavioral insight initiatives within an organization. The primary purpose is to change the behavior of staff for specific outcomes. Initially, about 20 initiatives are to be designed and implemented, led by senior MPC management. In addition, behavioral insight experts will be involved in the initiative to provide guidance. Finally, a governance committee is being set up to oversee the program.

CONCLUSIONS

Governments must consider using behavioral insights as a new policy tool as an addition to existing ones like regulations, incentives, and information. Behavioral insights can also be used to improve efficiency in regulatory, incentive, and information delivery. The main strength of behavioral insights is understanding how humans make decisions and help them in making suitable ones for their benefit. This human perspective on decision-making is missing from the current policy tools that make assumptions about behavior. The experimental and evidence-based approaches of behavioral insights are critical for ensuring successful public policies to achieve desired national or organizational outcomes. Successful governments are those that can shape behavioral change.

The planning and implementation of behavioral insight approaches in public policy in Malaysia are proceeding as planned. Initiatives such as the development of the PRIME framework, awareness programs, training and microlearning courses, professional development, and projects are being carried out. Positive outcomes with significant impacts have confirmed that behavioral insights should be among primary public policy tools in Malaysia. Behavioral insight initiatives can boost productivity and competitiveness significantly.

The author recommends that behavioral insights in public policy should be widely adopted by countries and public and private organizations. However, strategic plans for implementing behavioral insights in government policy-setting exercises must be developed, and the inclusion of most stakeholders in related programs is necessary.

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