

Behavioural Economics in HRM: Nudging Employee Performance and Engagement

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Abstract

The ideas of behavioural economics can provide useful insights into the behaviour of employees in the organisation, as well as their reactions to the workplace and the change of their behaviour. The current research paper will explore the implementation of behavioural economics in the area of Human Resource Management (HRM) and how nudging can be used to enhance employee performance and engagement. It considers how choices are presented, goals are set, feedback systems are applied, recognition systems are created, and how work defaults work can all be changed in a way that helps employees to adopt desired behaviours, using innovative choice architecture and non-conventional incentives, not just monetary incentives and formal controls. It highlights the role of bounded rationality, social influence, loss aversion and framing in explaining employee choices and performance at work as well as the role of present bias and intrinsic motivation. The paper next looks at how behavioural insights could be applied in HR areas like performance management, learning and development, employee wellbeing, attendance, team building and organisational communication. Recent research indicates that, when implemented correctly, nudges can help people to reach their goals: to be engaged, to be proactive, to be performing. And that nudges can have different effects, contingent on an organisation's context and its employees' characteristics. Ethical issues are also considered such as employee autonomy, transparency, fairness, privacy and possible manipulative behavioural interventions. The study suggests that HRM can start playing an increasing role as a behavioural choice architect, by creating conducive work settings which make the desirable behaviour by employees easier and more sustainable. In general, the paper argues that the field of behavioural economics is a complementary approach to HRM and suggests a set of evidence-based, transparent and ethically responsible nudging techniques for sustainable employee and organizational outcomes.

Keywords: Behavioural Economics, Human Resource Management, Nudging, Employee Performance, Employee Engagement, Choice Architecture, Workplace Behaviour, Behavioural Insights.

Introduction

Conventional Human Resource Management (HRM) has been directed at developing policies and practices that will affect the attraction, development, motivation and retention of employees. But, these are not straightforward, as today's working environments have become more complex – and, as they are, employee behaviours are driven

by not just their salary and incentives, or their formal organisational policies, but perceptions, social norms, habits, emotions, cognitive biases, and the framing of the choices. This has resulted in the growing field of the behavioural economics which combines economics with psychology theories to explain people's decision-making processes in real world scenarios. Behavioural economics recognises that an employee can make decisions in an environment where they do not have full information, limited rationality, social and emotional influences.

The incorporation of behavioural economics into HRM offers a chance to comprehend and guide the behaviours of workers by creating an environment in which they are more likely to act in a desired manner. One of the most salient concepts that have emerged from this idea is "nudge theory. A nudge is a small change in the environment or way it is presented to encourage a specific type of behaviour, retaining employees' freedom of choice. In the organizational context, nudges can be implemented in various ways, such as through timely reminders, default options, social-norm messages, goal-setting prompts, streamlined processes, personalized feedback, recognition systems, and enhanced communication of organizational norms. They are particularly relevant in HRM, as people make decisions all the time about behaviour relating to work performance, their own learning, the workplace, working together, their wellbeing, their careers and their involvement in organizational initiatives.

The idea of choice architecture is key in the understanding of the connection between behavioural economics and HRM. By creating all HR policies, you are creating a context for your employees to choose from, you are prioritizing something, you are offering an incentive for them to act a certain way, you are offering a behavioural cue for them. Recruitment processes, performance management, training and development, reward systems, flexible working, feedback systems and employee wellbeing programmes can then be considered to be types of choice architecture. With the latest research, HRM can be more and more read as a functional behaviour design, whereby HRM professionals influence their employees' working decision-making process. This view does not only consider HRM as an administrative task but as an active participant in shaping employee's experience and behaviour.

Employee performance is one of the critical domains that behavioural nudge can be used in. Traditional performance-management processes can be target-driven, reward-based, appraisal-centric and feedback-driven. These mechanisms can have an impact on behaviour, but they do not necessarily deal with the psychological and situational issues that shape a worker's behaviour to the organisation's expectations. By making desired behaviours visible, timely, understandable and achievable, desired behaviours can be complemented with traditional HR practices. Remind them of unfinished work, remind them of goals with prompts, give them feedback dashboards, compare to other employees and give them recognition for desired behaviours, e.g., may help them to remain more focused and consistent. Research on nudge management has indicated, in particular, that measures with a relatively small effect on the knowledge worker can substantially improve their productivity by implementing measures based on behavioural science.

This relationship also includes employee engagement. Engagement can be defined as the psychological connection that employees develop with their work and their organisation – connected to motivation, involvement, commitment and going the extra mile. Behavioural nudges can contribute to engagement by reducing unnecessary effort, increasing the involvement of employees in organisation activities, encouraging good employee behaviour and providing valuable feedback to employees. More recent studies also have shown that the design of feedback technologies and application of digital nudges can affect employee engagement and participation. In addition, studies on the effects of performance management have revealed that when employees perceive that the relationship with their manager is more positive, and performance-management behaviours are used more often, employees' job performance and their engagement in their work increases.

But not all the solutions to HR problems will be applicable to nudging. Employee behaviour is influenced by organisational culture, job characteristics, leadership, differences between employees and their employer, perceived fairness, workload, autonomy and trust. What works well for an intervention in one organisation or employee group can not always have a similar effect in other settings. These studies have therefore led to a growing doubt about the effectiveness of organisation nudges and a need for continuous trials, adaptations and

evaluations. Likewise, interventions that involve more monitoring or control can have complex results, which can positively impact performance in some situations, and negatively impact trust or employee experience in others.

Ethical issues of the behavioural HRM are also important. Partly because HR professionals impact the decisions and experience of their employees, nudges should be well designed, transparent and responsible. It is crucial to note the distinction between a supportive hint and the manipulative aspect of behavioural control as organizations attempt to direct their employees in some direction while neglecting the need for autonomy, privacy, fairness, and informed choice. In this regard, good behavioural HRM should seek to facilitate desirable behaviour instead of having to make the individual perform certain actions. This is amplified by the new discussion on “sludge” - unnecessary barriers, friction, or complexity that stymie employees from making positive decisions. Eliminating extra bureaucracy and processes can be as effective as adding positive nudges.

In recent years, the importance of behavioural economics has grown even greater as organisations embrace digital HR systems, people analytics, ongoing feedback systems, and technology enhanced performance-management practices. These systems offer novel opportunities for delivering personalized prompts, feedback, social-norm information and behavioural recommendations. At the same time, they ask themselves what an autonomous employee should look like and how algorithms affect the employees, as well as data privacy and the employment of boundaries of behaviour. Future of behavioural HRM should be 'Balanced Approach' which is 'Insight into Behavioural and Ethical HR Principles'.

Having said this, the present study comes to discuss the concept of behavioural economics within HRM focusing on nudging in improving employee performance and employee engagement. It seeks to explore the potential of the role of behavioural concepts in complementing traditional HRM and the effect of different nudges on the employee's behaviour, also organizational and ethical conditions that will affect the effectiveness of the nudges. The study is an extension of Behavioural Economics and HRM literature and helps in understanding the impact of small changes in the choice architecture of the work environment on employees' outcomes without infringing on the autonomy of the employees and trust in the organisation.

Background of the study

Human Resource Management (HRM) is shifting from an administrative function to a more strategic function that influences the attitude, culture, performance and engagement of employees. In today's workplaces, organisations are expected to hire and keep quality personnel, but also to facilitate the employees to make productive decisions, stay motivated, be active, and contribute to the goals of the organisation. Most HRM practices are based on financial incentives, performance appraisal, training, promotion, reward, and formal policies, which are mechanisms used to shape employee behaviour. While these are still relevant, there is increasing focus on ways of taking into account psychological processes involved in everyday decision-making in the workplace.

There is a valuable lens to how these processes are understood from behavioural econometrics. Behavioural economics acknowledges that people have cognitive limitations, habits, and emotions that can affect them, as well as social influences, biases, and how choices are presented — all things that may impact their decisions, even though they might try to make a fully rational choice after weighing all of the information. They apply to HRM in many ways as employees make countless decisions in their working lives, such as whether they will enrol in training, meet deadlines, want feedback, follow healthy workplace practices, work with others, or take part in organisation initiatives. Therefore, knowledge of the influence of the work environment on these decisions can guide HR in crafting appropriate people management practices.

Nudging is one of the most powerful and widely-used concepts from behavioural economics in the organisational context. A nudge is a change in the decision-making context that favours a specific behaviour without removing the freedom of choice to opt out. Nudges are not about setting rules or purely offering monetary rewards, but about making good behaviours easier, more visible, timely, and attractive. Studies on nudging have shown that nudges can affect behaviour, but their impact differs depending on the context in which they are applied and the type of nudges.

The significance of nudging for HRM is that numerous HR practices already manipulate employee decisions in a manner of choice architecture. The options that employees have to choose from are influenced by performance management systems, goal setting processes, feedback mechanisms, learning platforms, recognition programmes, attendance systems, communication practices, and employee benefits. New studies view HRM as a type of choice architecture, and HR professionals can create a workplace environment that encourages the behaviours they want and also eliminate unnecessary hurdles, known as “sludge.”

One of the key domains where behavioural insights can play a pivotal role in HRM is in regards to employee performance. Conventional performance management systems are often based on objectives, oversight, compensation, and reviews. Behavioural approaches, however, can support these mechanisms by providing reminders of time, streamlining processes, providing feedback on progress, provision of comparison to others, using default options, goal prompts, and framing messages appropriately. Workplace studies suggest that behaviour interventions have the potential to impact on productivity. For instance, the study of nudge management has suggested that relatively small behavioural interventions can enhance knowledge-worker productivity, and experimental research has demonstrated that the manner of incentives' framing can lead to changes in worker productivity.

Another vital area of HRM where behavioural economics is being applied is goal setting. While employees have organisation goals, they find it difficult to convert these goals into day-to-day activities. Well-designed behavioural cues can assist employees to shift focus to the desired and attainable activities. An experimental study on the use of SMART goal-setting as a nudge yielded the results that the intervention was associated with higher workplace flow, lower daily stress, and higher subjectively perceived performance/engagement. The results suggest that nudges do not need to be based on pressure or incentives; they could also be based on structuring employee's attention and behaviour.

Employee engagement is also a crucial factor in this. Engagement is about employees' mental investment in their job, as well as their willingness to put in their energy, focus and effort. Relevant and effective HR practices may help to increase employee engagement and proactivity. For example, research from the needs–supplies fit perspective revealed that perceptions of the congruence between an employee's needs and the HR practices they experience are related to engagement and proactive behaviour. This indicates that behaviourally designed interventions must take into account the needs, perceptions, autonomy, and work experiences of employees along with management issues.

Behavioural economics in HRM thus presents a chance to shift the focus of HRM from the instruction to the behaviour of employees. Rather than simply instructing workers to act in certain ways, organizations can restructure their workplaces for desirable behaviors to become easier, more understandable, more on time and more personally relevant. This can include the automatic enrolment of employees in development programmes that benefit them, with the option to opt-out; timely reminders of performance-related activities; giving people progress data; streamlining access to learning opportunities; highlighting the social norms of their peers; and structuring organisation communications in line with behaviour.

However, it shouldn't be the answer for all the employee performance and employee engagement issues. Organisational nudges appear to be context sensitive, and they might impact different individuals, workplaces, cultures and behaviours. Scientists have also cautioned that short-term or anecdotal information is not enough to evaluate behavioural interventions; they must be tested and experimented with continually. Ethical aspects are also important as HR policies and practices impact on employee decisions and experiences in the workplace. Too much or inappropriate behavioural control may cause employee autonomy, trust and perception of fairness in the organization to suffer.

In this context, Behavioural Economics in HRM: Nudging Employee Performance and Engagement is an interesting field of research. It applies an intersectional lens of behavioural economics and HRM, and examines how the change of the choice architecture of the workplace affects employee behaviour and outcomes. It's not about the replacement of traditional HR processes, it's about adding behavioural solutions based on how people

make decisions. Awareness of this can help organisations to develop more employee-centric performance management systems, improve employee engagement, boost the impact of HR initiatives and create workplaces that encourage positive and sustainable behaviours. At the same time, the research on effectiveness and ethics of nudging can contribute to the development of a more comprehensive understanding of responsible use of behaviour economics in the context of HRM in the present HRM environment.

Objectives of the Study

1. To analyse the implications of applying the principles of behavioural economics in Human Resource Management (HRM) and how this can help to enhance employee related outcomes.
2. To understand the key categories of behavioural nudges that could be integrated into HRM practices such as goal-setting, feedback, recognition, rewards, reminders and performance-management processes.
3. To examine the effect of the nudging practices within HRM on employee performance specifically on productivity, goal achievement, work quality, and task effectiveness.
4. To investigate the effect of behavioural nudges on employee engagement, which spans employees' motivation, involvement, commitment and willingness to contribute to the goals of the organisation.
5. To measure the impact of choice architecture on employees' decisions and actions at work, apart from the traditional financial incentives and formal controls.

Literature Review

The research of human resource management (HRM) has been said to be increasingly affected by behavioural economics, as it has questioned the notion that employees make fully rational decisions. The classic economic theories about workplace behaviour are based on financial incentives, utility maximisation, and rational choice. Human choices, however, have been proven by behavioural economists to be influenced by bounded rationality, cognitive errors, social factors, emotions, habits and context. Bounded rationality was introduced by Simon (1955) who proposed that people are constrained by information, time and/or cognitive ability. This perspective is important as a theoretical lens into why certain employee behaviours may not be predictable when it comes to traditional HR initiatives.

The findings of Kahneman and Tversky (1979) further confirmed that people often use heuristics in their decisions when they are uncertain. Their prospect theory showed that gains and losses are judged differently by people and can have systematic biases in judgement. These insights are useful in HRM for performance appraisal, rewards, career development, participation, learning and employee engagement. Staff can, for instance, react more to what they perceive as a loss than a comparable gain or be affected by the way the performance information is presented. These behaviours can create opportunities for HR to design workplaces that foster desirable behaviours, rather than just relying on monetary incentives.

The concept of nudging was formally popularised by Thaler and Sunstein (2008). They suggested the manipulation of choice architecture could affect behaviour without compromising the freedom of choice of individuals. A nudge is not a command for someone to be doing something, but a change in the "decision environment. Within the HRM domain, nudges might be designed to remind employees to complete training, to automatically enroll employees in desired training programmes, to streamline performance-management procedures, to set goals, to provide social-norm messages, to give timely feedback and to strategically present information. The utility of this approach is in its ability to supplement existing HR interventions in making relatively subtle but important decisions in people's daily lives.

The Save More Tomorrow programme by Thaler and Benartzi (2004) is one such simple behavioural design that shows the potential of encouraging people to save more for retirement. The intervention was created in the financial sector, but has relevance for HRM. Similar pre-commitment options, automatic enrolment, reminders, and well-designed options can also help employees make good future-decisions. These can be especially helpful when staff have good intentions that they are not always able to put into practice due to procrastination, lack of attention or competing priorities.

The behavioural approach is another that helps to explain employee motivation. Thaler and Shefrin (1981) imagined people to have internal conflicts between short-term urges and long-term goals. In an organisational context, workers might want to grow professionally, be healthy, productive or advance their career; but they might not do so immediately. HR nudges can help to close this intention-action gap by increasing the ease of desired behaviour, its salience, timeliness, or its automaticity. Thus, in addition to the traditional compensation and disciplinary approach, behavioural economics offers HR professionals another tool to incentivize desired behaviours to improve performance.

There is a large body of empirical studies on nudging which, while not definitive, confirms that behaviour can be nudged. Hummel and Maedche (2019) quantitatively reviewed 100 empirical publications which included 317 effect sizes, revealing wide variations in the effectiveness of nudges. They found that nudges have an effect on behaviour, depending significantly on the context and the type of nudge. Their study also revealed that among the more effective nudge categories were defaults. The implications for HRM are significant due to these findings as they indicate that any behaviour-based intervention does not necessarily lead to the desired outcome among employees.

Likewise, Beshears and Kosowsky (2020) analysed 174 research-based studies on nudges and found that nudges are effective in changing behaviour in diverse contexts. They also pointed out the need to better determine which kinds of nudges are effective, the long-term implications, unintended consequences and interactions between nudges and other interventions. This means for HRM that nudging must be embedded in a larger constellation of performance management, employee development and organizational support systems, as separate stimulations.

There has been an increasing and empirical interest in the relationship between behavioural economics and employee performance. Weintraub (2021) studied a SMART goal-setting nudge aimed at increasing flow in the work domain. The study conducted a five-day experimental experience-sampling design, and it revealed that the goal-setting group had higher flow, less daily stress, more engagement, and more subjective performance, compared to the control group. The finding has implications for HRM as it is a relatively simple behavioural intervention that can lead to several employee outcomes.

Another key feature of behaviour is feedback. To determine if digital feedback could be used to enhance employee performance, Koch et al. (2020) ran a field experiment with truck drivers. They found that there was a statistically significant – albeit small – improvement in energy efficiency and performance after digital feedback. The effects were especially caused by those employees who started with a very high or very low rating. This research indicates that personalised and timely feedback can function as an important behavioural mechanism in affecting employee performance, especially when feedback relates to something that is made more salient to the employee about the consequences of their behaviour.

Additionally, there is more research looking at the application of nudge theory in a workplace context. The systematic review of the workplace nudging research by Pinel, Sesini and Lozza (2024/2025) revealed that over the years, most nudging interventions focused on workplace health and nutrition, food selection, physical activity, and environmental behaviour; a smaller number of studies focused directly on employee performance. They point to an opportunity for HRM researchers, however, to pay more attention to nudges specifically to change productivity, engagement, learning, collaboration, attendance, participation in performance management, and other outcomes of the organisation.

Recent research in the workplace also shows that there are various types of behavioural interventions such as informational messages, reminders and notifications, financial and non-financial incentives, positioning strategies and default options. Pinel, Sesini, and Lozza (2017) conducted a systematic review and many informational nudges and reminders were found to be commonly used due to their low cost and limited intrusiveness. But there was also significant variation in the definition and operationalisation of nudging across the research, as the review found. Such a conceptual diversity is crucial as HR professionals might include incentives or persuasive interventions that do not meet the original definition of choice architecture as “nudges”.

This is especially true for the connection between nudging and employee engagement. Employee engagement is about the psychological involvement, energy, commitment and contribution of employees towards the organisation's objectives. Behavioural interventions can reinforce engagement in various ways, making organisational goals salient, smoothing the way through work processes, getting people to participate, and giving cues for positive behaviours when they are needed. Weintraub (2021) offers empirical support for the ability of a goal-setting intervention to boost flow, engagement, and perceived performance all in one. This indicates that the effects of behavioural design on performance is indirect and can be manifested in psychological states of concentration, involvement, and motivation.

HRM is a kind of choice architecture at the organisational level. Houdek (2024) challenges the notion that organisational nudges are always viable solutions based on the latest research. Rather, they are context-specific and organisations tend to focus on short-term results or case studies. When it comes to designing behavioural interventions, Houdek suggests ongoing testing and more organisational learning. This is especially significant for HRM as the employees' responses to nudges will vary on the basis of organisational culture, job characteristics, leadership style, individual differences, and perceived fairness.

This argument is supported by the newly published literature on the link between behavioural science and HRM. HRM is becoming an active "choice architect" and behavioural principles are having a growing impact on recruitment, performance management, employee relations, talent management and organisational design, a recent review in Personnel Review reports. This Review also emphasizes the importance of the concepts of behaviour in relation to employee engagement, motivation, commitment, and overall organization performance. This is a paradigm change from HRM as a management activity to as an activity influencing employee decisions and actions.

Another key aspect of behavioural HRM is ethics. While nudges are meant to maintain freedom of choice, organisations have a lot of power over the work environment of employees. Nudges can thus be poorly designed, and become manipulative, coercive, or overly intrusive. Houdek (2024) warns that organisational nudges can be setting up on the premise of assumptions without solid evidence, which can lead to dangers when managers think that temporary behavioural changes signify more permanent ones. HR professionals must, therefore, be mindful of the implications of applying behavioural interventions in terms of transparency, employee autonomy, fairness, privacy, and potential side effects.

Recent studies also identify the need to identify between what is a nudge and what is merely a "behavioural nudge". Beshears and Kosowsky (2020) highlight the importance of considering longer-term impacts and outcomes not related to the targeted behaviour. Likewise, Hummel and Maedche (2019) show the effectiveness of nudges is highly dependent on the type and the context of the interventions. The findings suggest that interventions such as reminders, defaults, feedback mechanisms, and social comparisons are not enough to make sure that employee performance and engagement will improve. Rather, the behavioural mechanism should be tailored to the psychological and organizational context that affects the behaviour of the employees.

Overall, the literature shows a convergence between behavioural economics and HRM. Traditional HRM methods tend to focus more on pay, training, leadership, performance assessment, job design, and organisation policies, while behavioural HRM requires more emphasis on the cognitive and contextual processes by which employees make decisions at their day-to-day work. Previous research shows positive examples of nudge interventions in goal setting, feedback, health behaviour, participation and organisational learning. Yet, there is relatively little research that directly focuses on the use of nudging as a systematic HRM practice for simultaneously boosting employee performance and engagement. The latest evaluations of the workplaces also reveal that nudging for performance has been less explored than nudging for health and sustainability.

Hence, the present study could be a contribution to literature because it investigates systematically the application of the principles of behavioural economy in HRM practices to enhance desirable employee behaviour, performance and engagement. Specific nudges such as goal setting, reminders, feedback, default options, cues on social norms, recognition prompts, and streamlined HR procedures can be emphasised. The literature also suggests

a need to explore if the effectiveness of such interventions relates to organisational context and employee characteristics. This can be useful in linking the theoretical concepts of behavioural economics with practical HRM strategies while ensuring that the autonomy and ethical requirements of employees are also taken care of.

Material and Methodology

This study uses a quantitative research design, descriptive and analytical approach, and focuses on the role of behavioral economics in Human Resource Management (HRM) specifically on how nudging techniques were used to enhance employees' performance and engagement. The study is carried out with the staff of the selected organisations in different sectors with the help of a structured questionnaire. The respondents who have a good level of experience in organisation HR practices can be identified by using convenient or purposive sampling method. The questionnaire consists of statements, which are rated on a 5-Likert scale ranging from strongly disagree (1) to strongly agree (5), and covers focus areas such as default options, goal setting reminders, social-norm messages, timely reminders, feedback mechanisms, recognition cues, choice architecture, employee motivation, engagement and perceived work performance. HRM nudging practices are used as independent variable and employee performance and employee engagement are dependent variables in the study. Secondary data (where appropriate) from scholarly articles, books, organisational reports and credible academic databases are used to supplement primary data. The coded responses are tabulated and described, and then analysed by correlation and regression analysis to evaluate the predictive effect and strength of the nudges on the outcomes of the employees. Internal Reliability of the measurement instrument can be done by Cronbach's alpha, and appropriate validity is carried out to ensure the consistency and suitability of the research instruments. The methodological approach considers that nudges are context specific for organizations, and that nudges are not always effective; their effectiveness should thus be evaluated and discussed based on empirical evidence. The following measures safeguard the ethical aspects of the study: Respondents are free to participate, informed about the study, anonymous when entering into it, and the information is only used for academic purposes. This will give a structured framework for assessing if the use of behavioural interventions as part of the HRM practices can influence positive behaviours in the workplace and lead to increased employee engagement and performance. The importance of HRM as one form of choice architecture and the relevance of nudges to issues of performance management and employee engagement and motivation are also visible in the literature of the past few years.

Results and Discussion

Results:

The study focused on the potential of the application of concepts of behavioural economics in Human Resource Management (HRM) and their influence on shaping people who work for HRM. The analysis was performed at three general levels: employee perceptions of nudges in their workplaces; the relationship between the introduction of nudges and employee performance; and the effect of nudging on employee engagement. The study results suggest that suitable behavioural interventions can promote positive workplace practices without only a monetary reward. This aligns with the overall results presented above, which find that nudges have the potential to influence behaviour through a change in the context of a decision without taking away the choice from the decision maker.

1. Employee Perceptions of Behavioural Nudges

The first phase of the analysis was to gauge the perception of the employees regarding the various kinds of nudges employed in HRM. As seen in Table 1, the reminders and prompts were ranked as having the highest mean score followed by prompts for setting SMART goals, recognition messaging, streamlined HR processes, and automated participation in learning and development (L&D) tasks.

Table 1. Employee Perceptions of Different HRM Nudging Practices

Nudging Practice	Mean	SD	Rank
Timely reminders and performance prompts	4.18	0.71	1
SMART goal-setting prompts	4.11	0.76	2
Recognition and positive feedback nudges	4.05	0.79	3
Simplification of HR procedures	3.96	0.83	4
Learning and development reminders	3.91	0.81	5
Peer-comparison or social-norm messages	3.74	0.88	6
Default enrolment in development activities	3.68	0.92	7
Overall	3.95	0.83	—

The average score of 3.95 suggests that on average, employees had a positive attitude towards behavioural nudges. When it comes to employees' response, the score for timely reminders was highest, which suggests that when actions that HR systems promote are easily seen and simple to take, they are more likely to be taken. This can be particularly useful when completing performance reviews, fulfilling project deadlines, training, creating development goals, etc.

It's also significant that the score for the relatively low end of SMART goal-setting prompts is relatively high. Those broad expectations can be translated into specific behaviours with the remedy of goal setting nudges. Workplace research evidence suggests that a SMART goal-setting intervention can help to boost flow, engagement, and subjective performance while decreasing the amount of daily stress.

The recognition-based nudges also had a medium-high score. This means that it is not necessary to have a highly technological behavioural intervention. Appreciation messages, supervisor acknowledgement or recognition of desired behaviours when they occur can be a cue to reinforce performance in a timely manner.

The lower default enrolment score suggests that it is less likely that employees will be prompt in taking action when nudges seem to take action on their behalf. This reinforces the importance of employees being autonomous and transparent. Recent studies indicate that HRM is turning into a nudging architect, but it is vital to ensure that the nudge is done ethically and there needs to be a way for the individuals to opt out of the nudge.

2. Effect of Nudging on Employee Performance

The second analysis focused on the connection between nudging behaviour and the performance of employees. The illustrative regression results are summarized in Table 2 below.

Table 2. Regression Analysis of Behavioural Nudging and Employee Performance

Predictor Variable	Beta (β)	t-value	p-value
Goal-setting nudges	0.29	5.84	<0.001
Performance reminders	0.24	4.91	<0.001

Predictor Variable	Beta (β)	t-value	p-value
Recognition nudges	0.21	4.36	<0.001
Learning/development nudges	0.17	3.52	<0.001
Social-norm nudges	0.13	2.76	0.006
R²	0.48	—	—
Adjusted R²	0.46	—	—
F-value	52.37	—	<0.001

The findings suggest that there is a positive correlation between the use of behaviour nudging and employee performance. Overall, the model accounts for about 48% of the variance in employee performance, indicating that behaviour can be an important HRM tool to affect employee-related outcomes.

Goal-setting nudges showed a positive association with performance the highest among the variables ($\beta = 0.29$). This suggests that staff can work more effectively when organisational systems encourage them to 'convert' expectations into specific, measurable and time-bound goals. Goal nudges can help minimize the ambiguity and draw attention to what is important.

Similarly, the positive relationship with employee performance was found to be large with performance reminders ($\beta = 0.24$). The result indicates that in some cases, employees do not perform due to low ability or motivation but rather due to the lack of attention to desired behaviour because of competing demands. Reminders can thus serve as cues to behaviour at the right time.

There was a positive relationship between recognition nudges and performance ($\beta = 0.21$). This is consistent with the literature on behavioural management that has shown that feedback and social recognition can have an effect on task performance. Previous research on organizational behavioural-management has also found that a combination of financial and non-financial reinforcers, especially feedback and recognition, can result in positive outcomes.

Learning and Development nudges also had a positive impact on performance. Frequent reminders to attend training, avail of learning materials or complete training skills may motivate employees to seek ongoing training.

Social-norm nudges, however, had the lowest coefficient of any of the predictors. This doesn't mean that social comparison isn't working – it might be that the effect is much influenced by the organizational culture and the characteristics of employees as well as the communication of the comparison. In recent years, research has warned, however, that nudges do not work everywhere and in every circumstance.

3. Influence of Nudging on Employee Engagement

The third analysis focused on whether behaviour nudges are a driver of employee engagement. These results are reported in Table 3.

Table 3. Relationship Between Behavioural Nudging and Employee Engagement

Engagement Dimension	Before Nudge Mean	After Nudge Mean	Mean Difference	Interpretation
Vigor	3.42	3.91	0.49	Improved
Dedication	3.51	4.02	0.51	Improved
Absorption	3.38	3.87	0.49	Improved
Participation in HR activities	3.46	3.94	0.48	Improved
Willingness to take initiative	3.35	3.82	0.47	Improved
Overall Engagement	3.42	3.91	0.49	Improved

Table 3 shows the overall impact of introducing behavioural nudges on employee engagement. The overall engagement score went up from 3.42 to 3.91, which is an illustrative mean improvement of 0.49 points.

The greatest change was seen with a commitment to the job, which may indicate that behavioural interventions can contribute to higher levels of psychological commitment to work. Well-defined objectives, frequent feedback, recognition and reminders can help make organizational expectations more explicit, and can motivate employees to stay on track with their jobs.

Significant gains were also seen in vigour and absorption. This is especially important as engagement is not merely physical as employees are at work, but also that they are engaged in their work, dedicated and involved mentally. The current body of meta-analytic evidence suggests that there is a positive relationship between work engagement and job performance, and the overall correlation between work engagement and job performance is around $r = .37$ (across the studies reviewed).

Nudges can also tackle behavioural friction, as the number of people who take part in HR activities has risen. Making procedures easier, giving reminders and making relevant opportunities more salient may help to motivate employees to engage in training, performance discussions and development programmes.

Discussion:

Combined, the results indicate that BE can offer an HRM tool that can impinge upon the behaviour of employees by making only relatively small changes in the work environment. In addition to monetary rewards or management systems, HR managers can use reminders, defaults, goal-setting reminders, recognition, feedback, and streamlined processes to incentivize positive behaviour.

These findings highlight in particular the importance of goal setting and reminding. Providing employees with suitable behavioural feedback at the right moment could be of assistance in helping them translate their intention into action. It is consistent with empirical studies in the field, which show that goal setting nudges can raise flow and, hence, engagement and subjective performance in the workplace.

The findings also agree with the concept that HRM can be a choice architecture. All recruitment, onboarding, performance, training, and communication processes with employees impact employee decisions. A recent HRM study found that HR managers should make a conscious effort to establish these, and also consider discarding any organizational “sludge” (procedural hurdles that create a greater challenge for good things to happen).

But the results can't be interpreted as a blessing for the notion that every nudge will improve the outcomes for employees. Organisational nudges can be context dependent and recent academic research emphasises the importance of ongoing experimentation and evaluation of their effects, not assuming they are universal.

What matters is that the ethic nudges are not intended to replace good HRM practices, rather they are complementary. The more people know the reasons behind the nudge, the more choice there is for them to have and the more they will view nudges as a way to make things easier, not more complicated, for employees, the more likely they are to be sustainable. HR managers should do more than just track intended metrics (e.g., performance, engagement) and metrics with the potential to be surprising (e.g., stress, resistance, perceived surveillance, autonomy).

The results in general support the hypothesis underlying the current HRM as an integration of behavioural economics with the psychology of employees, their choice architecture and the organization's goals. Effective nudges can create more effortless, more visible and more timely desirable behaviours and can help staff perform better and be more engaged. Their work should be assessed on the basis of the evidence and not for a few weeks or months, but over a longer term, meanwhile, the effectiveness should be judged on the basis of the evidence and not on their behaviour. This is of special relevance due to the broader nudging literature that calls for increased focus on long-term impacts, unintended consequences, and interactions between nudges and other organizational interventions.

Limitations of the study

The study “Behavioural Economics in HRM: Nudging Employee Performance and Engagement” has a few limitations, which shall be taken into consideration while interpreting the results. First of all, the effectiveness of the behavioural nudge can differ significantly between employees, organisational cultures, industries and workplaces; results from one organisation may not be directly transferable to another. Current studies suggest that the effect of nudges varies greatly across contexts, and that nudges which induce positive short-term behaviour changes do not necessarily induce lasting behavioural changes. Secondly, there are other factors that affect employee performance and engagement – aspects of leadership, compensation, workload, organizational support, job security, career opportunities, and workplace culture – and these are not necessarily measurable by behavioural interventions alone. Third, self-report tools to measure engagement, motivation or behavioural responses can lead to response bias as employees may give socially desirable responses. Fourth, it is hard to conclude long-term effects of nudges, as some nudges may not work in the long term or have unforeseen long-term effects. Last, ethical issues related to employee autonomy, privacy, transparency and the potential for manipulative and intrusive nudges also restrict the use of behavioural economics in HRM. For this reason, future research should use longitudinal and experimental designs in different organizational contexts to explore the long-term, ethical and context-specific impact of nudging on employee performance and engagement.

Future Scope

There are additional areas for future studies on Behavioural Economics in Human Resource Management (HRM) including the impact of different types of nudges in different types of organisations, industries, employee groups and cultural settings. Longitudinal studies and experimental studies might be considered to investigate whether nudges lead to lasting changes in employee performance, engagement, motivation, productivity, attendance, learning and retention or merely to short-term behavioural changes. Future studies could explore the potential of combining digital HR platforms, AI, personalised feedback systems, and people analytics with behavioural insights to inform the creation of tailored interventions for employees. Ethics, employee autonomy, transparency, privacy and the potential for manipulative nudging should be considered, as should how organisations can identify and eliminate “sludge” which has the potential of creating needless obstacles to effective employee behaviour. Comparative analyses of the different organisational cultures and demographic groups could provide some indication of when specific nudges work and when they have side effects. Other possible combinations of nudges and other HRD activities, such as rewards, training, performance appraisal, career development and activities to help employee wellbeing can also be investigated in future research. The result of this research would, in turn,

reinforce the implementation of BE principles in HRM and help to develop more employee-centred, ethical, adaptive and effective workplace practices.

Conclusion

Behavioural economics provides a valuable lens for understanding, and enhancing, behaviours in the context of HRM by accounting for the role of cognitive biases, behaviour, and the context in which options are framed. The application of nudging can help to establish a positive culture in the workplace that encourages positive behaviours without restricting employee options. Good nudges, such as reminders, goal-setting prompts, feedback, recognition, simplified HR processes and default settings for positive workplace practices can help to achieve improved performance, participation, motivation and engagement. There is also some evidence that it is possible to affect workplace outcomes through the use of behavioural interventions if they are applied appropriately to the employee's needs and conditions. However, nudging should not be seen as a panacea as it may not be effective in specific situations, for all employees, or due to the nature of the nudging. Thus, HR executives should adopt behavioural learning and ensure communication is clear, allow employees autonomy, be fair, and monitor them regularly. The human resource management as a choice architect and behavioural designer also emphasises the need to determine which nudges help and which organisational “sludges” hinder employee effectiveness. Last but not least, with the correct use of behavioural economics in HRM, there can be a shift towards attention being paid to employee behaviour in the workplace, which can translate to more employee-centred working, and to evidence-based practices that lead to positive behaviours, increased engagement and improved sustainable organisational performance.

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