In our hearts, we are all procrastinators. Just about everyone hates doing their taxes, or pulling weeds from the garden, or sticking to a diet. And so we go to great lengths to avoid doing these unpleasant tasks, even though they ultimately need to get done.

Of course, in a perfectly rational world, procrastination would never be a problem. We would simply compute the values of our long-term objectives, compare them to our short-term enjoyments, and understand that we have far more to gain in the long term by forgoing some small bit of pleasure in the short term. But in reality, most of us will jump on an immediately gratifying short-term experience (e.g. eating a bag of chips) even if it means compromising a longer-term objective (e.g. looking good in our swimsuit).

Yes, it would be nice if we humans were more sensible with our decisions. But sadly, we're not. And it's probably foolish to think we'll ever change. This is where behavioral economists like Dan Ariely of Duke University enter the picture. Unlike traditional economic thinkers, behavioral economists don't assume that people operate like cold, calculating machines. Instead, they observe how people actually behave. And quite often their research leads to the conclusion that human beings simply behave irrationally.

In his first bestselling book, *Predictably Irrational*, Ariely gave us a glimpse into the irrational side of human decision-making. When it comes to human motivations, he wrote at the time, we are "less like the hyper-rational Mr. Spock and more like the fallible, vindictive and emotional Homer Simpson." Given our obvious shortcomings, Ariely's stated goal with that book was to help us "figure out how to get the least bad out of ourselves" when making choices about money, our relationships and our happiness.

In his latest book, *The Upside of Irrationality*, Ariely picks up where he left off by serving up more cutting-edge lessons from behavioral economics, all of which can be readily applied our day-to-day lives. But unlike his earlier book, this one is more personal, with Ariely drawing heavily from his own daily experiences to create generalized hypotheses about human behavior. When a waitress screws up Ariely's lunch order, or when he's treated dismissively by Audi's customer-service department, Ariely finds new inspiration.
"The Upside of Irrationality is highly personal," writes Ariely in his introductory chapter. "Though my colleagues and I always try our best to be as objective as possible in running and analyzing our experiments, much of this book was colored by some of my own difficult life experiences." (As a young man, Ariely experienced a devastating accident where he suffered burns on over 70% of his body, and later contracted hepatitis. He was in and out of hospital for years for various treatments as a result.) "My journey provided me with some unique perspectives on human behavior," says Ariely.

The Upside of Irrationality is divided into two distinct parts. In the first part, Ariely explores human behavior in the world of work. He looks at relationships between management and employees, focusing mainly on questions of motivation and engagement. In the second part, Ariely looks more broadly at issues of interpersonal engagement in our communities. He investigates how people adapt to new conditions, environments and lovers; what forces dictate our response to human tragedies; and how our emotions at any given moment can influence patterns of behavior long into the future.

For the purposes of this summary, we've selected two of the representative chapters from each section of the book, beginning with a chapter on the effects of monetary incentives on motivation (particularly executive motivation) and stress in the workplace.

Paying More For Less

In an early chapter, Ariely challenges corporate America's widely held view that large performance bonuses are an effective motivator, specifically in the case of CEOs.

Needless to say, this is a particularly touchy subject right now given the recent global financial crisis, and the ongoing outrage over the exorbitant bonuses paid to many of those deemed responsible for it. While there seems to be no love for the majority of Wall Street CEOs among members of the general public, many corporate boards (who are responsible for setting executive compensation schemes) still seem to believe that offering large performance bonuses is necessary to attract and motivate top CEOs.

But is this really the case?

Through a series of real life experiments conducted on average American workers (i.e. not Wall Street executives), Ariely and his team discovered that using money to motivate people can be a double-edged sword. Ariely found that for tasks requiring run-of-the-mill cognitive ability (e.g. highly repetitive tasks, typical of an old school factory setting), financial incentives can help drive workplace performance. But in settings where a lot of thinking and creativity is required (i.e. most modern workplace environments), particularly when an incentive level is set too high, the prospect of getting a big bonus can draw too much mental focus. This then clouds people's mind with thoughts about the reward, which creates negative stress and ultimately lowers employee performance.
Not unsurprisingly, whenever Ariely has presented a CEO with his theory (i.e. that chasing big performance incentives places executives and the people around them under too much negative stress), the CEOs have typically insisted that, unlike most other people, they actually work better under stress. Of course, whenever Ariely would invite the CEO to come to his lab so that he could run an experiment to test their supposed super-human stress resistance, they would politely decline. So, with no opportunity to actually test Wall Street CEOs, Ariely did the next best thing and applied his theory to well-paid NBA basketball players. Specifically, he looked at "clutch players" — the basketball heroes who sink a basket just as the buzzer sounds. (Clutch players, it should be noted, are generally paid much more than other players, and must perform especially brilliantly during the last few minutes of a game, when their stress level is highest).

With the help of Duke University men's basketball coach Mike Krzyzewski, as well as a small group of professional coaches, Ariely and his team watched videos of the twenty most crucial games for a select group of clutch players over an entire NBA season. For each of those games, they looked at the number of points scored during the last five minutes of the game, when the stress facing clutch players is most intense. As a comparison, they also looked at points scored during the last five minutes for all the other "non-clutch" players who were playing in the same games.

At first glance, Ariely found that there was actually a substantial improvement for clutch players during the last five minutes of key games. So, it was starting to look as though maybe a small group of very special clutch basketball players (and, by analogy, a select group of Wall Street CEOs) could, in fact, perform better under pressure. But when Ariely took a closer look, he realized that the clutch players did not really perform better under pressure; they just shot the ball more times. Consequently, their total points scored were higher than non-clutch players, but their percentages were actually worse.

Of course, Ariely would be the first to admit that NBA players are not Wall Street CEOs. But still, since highly skilled professional ball players don't actually play better under intense stress and pressure, he reasons that it is just as unlikely that corporate CEOs are able to perform to a higher degree when their yearend bonuses are on the line.

If Ariely is correct, it begs asking what would be a better way to remunerate people without overstressing them. One simple solution would be to keep bonuses (but not necessarily salaries) low, writes Ariely. This would eliminate the negative consequences of over-motivation. Another approach might be to offer CEOs a performance-based bonus that is averaged over time (say, the previous five years, rather than only the last year). This way, the immediate effect of any given year's performance would matter less.

"Whatever approach we take to optimize performance," says Ariely, "it should be clear that we need a better understanding of the links between compensation, motivation, stress, and performance. And we need to take our human irrationalities into account."
The Ikea Effect: Why We Overvalue What We Make

In another fascinating Part One chapter, Ariely looks at pride of creation in both a domestic and business context. He asks the fundamental question: "Why do people (i.e. employees) take pride and ownership in their work in some cases, but not in others?"

To help his readers understand the basic recipe for human pride, Ariely starts with a historical anecdote about semi-prepared cake mixes. When instant cake mixes were first introduced to America in the 1950s by Betty Crocker, many housewives were initially resistant. At first, Betty Crocker's marketers were puzzled as to the reasons for the women's resistance. After all, in blind taste tests, most Americans could not tell the difference between a cake that was made entirely from scratch, and one that was born out of a pre-made mix. Eventually, the marketers came to understand the basic issue: the mixes were too easy, suggesting that the housewives' labor was undervalued.

To address this emotional issue, Betty Crocker changed the recipe to require the addition of a few simple items, including a fresh egg, and right away the product began flying off the shelves. "Ironically," explains Ariely, "increasing the labor involved [i.e. making the task slightly more arduous and time consuming] led to greater adoption and enjoyment."

Ariely's research shows that people are innately more attached to things they've had a hand in creating than things that simply fall out of the sky onto their laps. When people construct products themselves, from bookshelves to computer systems, they come to overvalue their (often poorly made) creations.

Ariely dubs this phenomenon "the IKEA Effect," in honor of the wildly successful Swedish manufacturer whose low-end furniture products typically come packed in a cardboard box with much assembly required. (The theory crystallized in Ariely's head while he was building an Ikea toy chest for his kids. As he explains it, the instructions for the box were very unclear, and he had to disassemble and put it back together several times before he was done. By the end of the day, Ariely had sweated and cursed a lot, and although it was not a particularly beautiful piece of furniture, he realized he was actually quite attached to the darn thing.)

Needless to say, the Ikea Effect creates lots of business opportunities for companies that manufacture things. If you can create semi-finished products that customers can then go on to finish and customize for themselves at home, you have an opportunity to profitably tap into the positive elements of the Ikea Effect. Clearly, there's no end of opportunities for offering custom-made and user designed products over the Web.

Also, the IKEA effect has interesting implications for workplace dynamics, but not all of them are positive. For starters, it contributes to a "sunk cost effect," whereby managers may continue to devote resources to (sometimes failing) projects in which they have invested their labor, simply out of pride. The Ikea Effect also leads to the "not-invented-here syndrome," whereby management and employees tend to discount good ideas developed elsewhere in favor of their (sometimes inferior) internal ideas. "We should all keep in mind that the ideas we have..."
come to love, because we've invested our own labor in them, may not be as valued by our coworkers, or our customers," says Ariely.

**When Markets Fail: Examples from Online Dating**

In the second part of the book, Ariely switches his focus from irrational economic behaviors in the corporate realm to social ones, starting with a chapter on online dating.

"In economics, there's a concept called bad equilibrium," writes Ariely. "A bad equilibrium is a middle-ground strategy that two parties to any negotiation might converge on, but it won't produce a desirable outcome for either of the parties." Ariely decided to research this problem in the context of online dating, a real life laboratory full of bad equilibriums.

Online dating conversations, which may lead to first dates, often involve two people talking about issues where everyone can easily agree. But this is rarely helpful in sorting out whether the other party would be a good match. In these initial online conversations, we generally try to express ourselves and learn about the other person, but not express ourselves too much, or risk offending by asking intrusive questions. Consequently, we default to making friendly — but dull — conversation. In the process, we end up learning nothing meaningful about the other person, or revealing anything about ourselves.

"It's easy to talk about the weather," writes Ariely. "But while avoiding controversy may guarantee that we don't fail right off the bat, it does nothing to get us closer to success, as it provides us little useful information on whether we are a long-term romantic match."

In his research for this chapter on online dating, Ariely found a whole lot of pointless conversation going on. His analysis of hundreds of online text exchanges supported the idea that most people like to maintain boring equilibrium at all costs. Whatever interesting things men and women may have had to say, they simply didn't say them.

In an experiment, Ariely decided to push a voluntary group of hesitant daters overboard by limiting the type of discussions that they could engage in. He literally stripped them of the right to ask any boring old thing they wanted (e.g. "Where did you go to school?"), and instead mandating a list from which they could select interesting questions to ask.

Ariely made sure all of the questions were personally revealing, like: "How many romantic partners have you had?" and "How do you feel about abortion?" What Ariely did, essentially, is rig the market by imposing a set of circumstances that would help prevent a bad equilibrium. Online daters had no choice but to ask questions generally considered "out of bounds" for a first conversation.

Not surprisingly, Ariely's experiment led to much livelier conversations than he'd seen when daters were allowed to come up with their own questions. Instead of talking about their favorite foods, they started sharing deeply felt fears, or telling the story of losing their virginity. All parties reported that they were happier with the initial interactions.
Ariely believes that sometimes a given market (including an online dating market) needs to be artificially adjusted to account for basic human irrationalities, so that people can more easily gravitate toward behaviors that produce better results for everyone. (Remember, in dating, learning sooner that you're not compatible is a better result than wasting time being polite to each other.) This research can also be applied outside of the online dating realm. For example, if you're a manager, the same strategies could be applied to energize unproductive work meetings by prescribing controversial questions that people must address, or banning some topics, to help avoid bad equilibrium. "By occasionally forcing people to step out of their comfort zone, we gain more than if we just fall back on topics that are safe for everyone, and useful to no one," writes Ariely.

On Empathy and Emotion

In this final Part Two chapter, Ariely looks at questions of human empathy and emotion, and asks why we're all so quick to respond to one person (or animal) who needs our help, but so slow and reluctant to help when there are thousands of people in trouble.

He begins the chapter by recalling a frightening incident that took place in 1987, which few Americans who were alive at that time will probably ever forget. This is the story of Baby Jessica, an 18-month old girl from Midland, Texas, who became trapped in a well for nearly 60 hours in the backyard of her aunt's house. "Strangely enough," writes Ariely, "the plight of this one little girl garnered more national attention and emotional outpouring than the 800,000 Rwandans who died a few years later in the horrific genocide of 1994." Perhaps, he theorizes, Baby Jessica received more media attention because people can more easily identify with those victims we're able to put a face to.

Of course, it has been widely documented that there is often an inverse relationship between the size and scale of a given tragedy, and the amount of money donated to help victims. For example, far more people around the world are affected every day by the scourge of HIV/AIDS, or malaria, than there were victims of the September 11, 2001 terrorist attacks. Yet far more funding has been raised in support of the 9/11 victims.

When Ariely asks his students what they think could be done to inspire both the media and ordinary Americans to care more about important causes like HIV/AIDS, which impacts millions of people around the world, and less about extremely rare cases of young children falling into wells, his students typically respond "lots of information."

But Ariely's knows this clearly isn't the case. Bombarding people with more grim statistics about the scourge of HIV/AIDS would have little impact on donation rates. Instead, for a charity to be successful, it needs to find ways to humanize a particular problem. For example, the next time a tsunami flattens a far away city and kills thousands of people, concerned charities should try to single out one suffering individual — perhaps a little girl who dreams of becoming a doctor — and build a fundraising campaign around that story. Once we imagine the problem through the eyes of one little girl, our emotions are activated and we're moved into action.
is one reason why Anne Frank's diary is so moving, explains Ariely. It's a portrayal of one life needlessly lost among millions.)

The upside of all of this is that when our emotions are activated, most of us can be tremendously caring, generous and helpful towards one another. So by understanding and capitalizing on the fact that our emotions tend to be fickle (and sometimes even silly), we can help steer ourselves, and other people, toward more rational decisions.

Conclusion

By now, it should be clear that if we place human beings on that imaginary spectrum between Mr. Spock and Homer Simpson, we're far closer to Homer than we realize. At that same time, as Dan Ariely has shown us, there can be an upside to human irrationality. Some of the ways in which we are irrational, such as our ability to find more meaning in hard work, or our ability to care deeply about individuals in trouble (as opposed to large groups), may not always make much sense at first glance, but they are also what make us wonderfully human. And so we must embrace them. And, if you subscribe to Ariely's behavioral economic theories, even find a way to profit from them!