

Workshop 3:
Sludge and admin burden with
Professor Leo Lades

Summary

FORGOOD Updates

- **Grant awarded:** We have been awarded a grant to design & test FORGOOD Assess, a digital product that supports critically assessing initiatives that affect human behaviour through an ethical behavioural science lens. We'll begin designing and developing the tool from October. Then you'll have the opportunity to test its usefulness and help shape its design. We'll reach out directly with details on how you can get involved!
- **Raising awareness:** We continue to participate on a number of panels and podcasts to raise the profile of FORGOOD and how it applies across organisations.
- **Website updates:** We have added some new tools to the website including a sludge audit template and will continue to upload more in the coming weeks. We have also created a curated podcast & videos section to provide you with on-the-go content.

Latest Research on Behavioural Science

- The FORGOOD team are actively reviewing emerging literature on AI's productivity effects and the psychological and emotional dimensions of human-AI interaction.
- Sycophancy is a maturing area of concern, chatbots default to validating user decisions (e.g. affirming bad financial choices) and can drift toward increasingly extreme advice over iterated prompts, even just 3–4 exchanges deep.
- Cognitive outsourcing ("prompt puppets") is an identified risk, it's well talked about over-reliance on AI sequences erodes independent decision-making over time, raising ethical concerns around behavioural influence
- Cognitive risk is an emerging concept in the field, particularly relevant when AI is embedded in customer-facing or organisational decision-making contexts
- Claims that "all knowledge work will be AI-outsourced within a year" are viewed sceptically
- Key ethical challenges when using AI to influence behaviour include: differential credibility of AI advice, lack of transparency in personalised influence

Sludge & admin burden with Professor Leo Lades

What is sludge?

Sludge is excessive friction that makes it harder for people to do what they set out to do. Examples include: complicated forms, phone-only cancellations, confusing fine print, awkward return policies, complex claims processes, sites that are down, requests for the same evidence twice. It affects both customers and employees.

The useful contrast is with nudging. Nudges usually reduce friction to help people (easy pension enrolment); reducing friction can also harm (dark patterns, gambling, fast food). Some added friction

is good, for example prompts that make people stop and think, so friction isn't inherently bad. However, sludge is the friction that isn't warranted.

Leo highlighted that there's active work at the UN and OECD and that the New South Wales government's sludge audit guide is the most thorough method available. For UK firms, the FCA's Consumer Duty talks repeatedly about frictions and good retail outcomes.

Three questions that always come up

- **Isn't some sludge necessary?** Often yes. But when we add a form or a process step we tally the benefits and ignore the costs landing on the customer or the employee. The value of a sludge lens is that it forces the cost side into the conversation, and asks whether a step is proportionate.
- **Where does it come from?** Intentionally (easy to sign up, hard to leave; profit motives; policy-making by other means) but also, unintentionally layers of process design stacking up over years, new people adding steps without auditing what's already there, and the empathy gap, where experts who run a process daily can't feel how hard it is for someone doing it once.
- **Why should financial firms care?** Slower customer growth (fintechs and Amazon win largely on frictionless onboarding), wasted cognitive bandwidth internally, lost business, lost staff who get fed up, lower take-up of services plus Consumer Duty expectations.

The research: "Paying more or hassling less?"

Leo walked through the behavioural logic first. We are present-biased, so the hassle of an application is felt now while the benefit sits in the future and gets discounted. Even when the maths clearly favours applying, the comparison between doing it today and doing it tomorrow always favours tomorrow, which is the micro-foundation of procrastination, and why small admin costs suppress take-up far more than their monetary value suggests. He illustrated this with a heat pump grant simulation using Irish energy certificate data.

The headline study was an online experiment with around 1,000 participants. People read three grant descriptions at low, medium and high sludge (a short plain-English version, a five-page version, and a jargon-heavy version modelled on real-world documents) and answered five comprehension questions on each, paid by lottery ticket per correct answer.

- Higher sludge produced substantially fewer correct answers.
- Raising the incentive from £5 to £200 produced modest improvements.
- Roughly a 0.8 effect for hassling less versus 0.08 for paying more.

The practical implication for financial services: where you'd instinctively reach for a better rate or a bigger incentive, simplifying the process may do considerably more work. Leo was clear this needs replication across contexts.

Not everyone is harmed equally

Susceptibility to sludge is predicted by administrative literacy, digital literacy, mental health, available time and energy, and income. Effects are strongest in high-sludge conditions. A more complex process doesn't just lower average take-up or decision quality, it can result in disproportionate damage to exactly the groups the Consumer Duty asks firms to protect.

On which sludge hurts most: outdated websites and broken links, unfriendly contact, and jargon-heavy documents were rated seriously problematic. Printing and posting a form, or being asked demographic questions, much less so.

A typology of costs

Rather than asking "where's the sludge?", ask where each of these bites:

- **Search costs:** is it hard to find the information?
- **Evaluation costs:** once found, is it hard to weigh options and decide?
- **Implementation costs:** is the decision hard to actually execute?
- **Psychological costs:** frustration, shame, unpleasant interactions.

How to run a sludge audit

Sunstein's 2019 paper argued for sludge audits but never explained how to do one. Working with Sina Shahab, Leo drew on three decades of transaction cost audits to build a practical method:

1. **Select a relevant policy or process:** customer complaints, press attention and leadership concern are all good signals; also weigh whether you can actually change it.
2. **List the stages and steps of the behavioural journey:** start with a cognitive walkthrough where you pose as the customer, then refine through interviews. Granularity matters: detailed enough to point at a specific step and the person who owns it.
3. **Quantify the level of friction:** for each step leverage a 1–7 scale, anchored against the NSW scales which contain roughly 100 pages of worked examples, down to whether an email opens "Dear Nathan", "Dear Nathan" with a typo, or "Dear Customer").
4. **Qualify (diagnose) the type of friction:** which cost type is driving friction (sludge) at each step.
5. **Generate recommendations & ideas to reduce sludge.**
6. **Evaluate:** pre/post comparison, follow-up audits, A/B or RCTs where ethically workable to prove that sludge has been reduced

Recurring recommendations across audits: don't assume users are experts, copy what already works, set clear timelines (uncertainty about where you are in a process came up in every audit), centralise admin responsibility so institutions carry it rather than individuals, simplify requirements, improve communication. Beyond that, recommendations are highly case-specific.

Discussion Topics

Perceived versus actual sludge

A question was asked about how to address perceived sludge, for example people avoiding a channel (e.g a chatbot) based on past experience, even when the current version would handle their query fine. Leo explained that the research covers the opposite error, so this is largely unstudied. It raises the question of whether firms should advertise ease of application rather than headline rates.

Distinguishing good friction from sludge.

A question was asked around how identify good friction versus sludge. Leo outlined that the literature has no settled principles. Cost-benefit and proportionality are the best tools available. Clear cases exist at both ends (being asked the same question five times in a mortgage application is plainly excessive); the grey middle is unresolved, and a lawyer, a privacy specialist and a behavioural scientist will answer differently. This is where the FORGOOD framework could come into play.

Friction fatigue

There was discussion around adaptation to friction, for example payment warnings lose their effect once people habituate and click through, as with cookie banners. Leo shared that delivering them randomly rather than every time might work better as we know that this makes the behaviour less predictable however this is untested.

AI and friction for better use

The group explored how much friction to build into AI use. Too little and people over-rely on it, inherit its errors and lose the judgement to do their jobs; too much and they abandon it altogether. No intervention seems to work cleanly, since each carries a backfire risk, so building a repository of what's been tried was suggested. Concerns were raised that organisations are measuring staff on using *more* AI rather than using it well, and that AI on both sides (firms' chatbots, customers' agents) could create a sludge arms race with unclear accountability. The underlying gap was seen as human capability, particularly the instinct for when not to use AI, prompting a proposed "for good" training module. The closest thing to an answer was "nudge plus": keep the easy path easy but add a short prompt explaining why, so reflection is available rather than imposed. The acknowledged limitation is that the busiest and most vulnerable are least likely to take it up.

ANY QUESTIONS?

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