

Book Review

The Power of Habit: Why We Do What We Do In Life and Business

Kevin J. Zimmerman

Author: **Charles Duhigg**

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Could *The Power of Habit* teach me how to get into the habit of regularly reviewing my finances? Drawing on anecdotes, as well as psychological and neurological research, *New York Times* investigative reporter Charles Duhigg illustrates how habits form and how they can be changed. Most of the choices that we seem to make every day are actually not choices, he says, but habits that impact our productivity, financial security, and happiness. Once we can identify our habits, we have the power to change them.

Balancing engaging narrative with references to research studies, the book is a pleasure to read while remaining substantive. There is also an extensive Notes section comprising 285 notes. The one disappointment for many readers, however, may be that it can be difficult to extract ways to apply the content of the book to an actual habit-related challenge. In fact, the most applied part of the book, the Appendix, was not even part of the audiobook that I listened to, although it was included in the e-book that I read. (Search YouTube for “How to break habits” for a 3:39 minute video that distills the content of the Appendix. It is worth the effort).

Below is a chapter-by-chapter summary of the book, in which I highlight the chapter’s relevance to financial counselors and planners where possible.

Prologue: The Habit Cure

At age 34, Lisa Allen was \$10,000 in debt, obese, and unemployed. Four years later, she had lost 60 pounds, was

debt-free, and had bought a home. How did she change everything? By focusing on *one* thing: quitting smoking. She replaced smoking with jogging, which changed how she ate, worked, slept, saved money, and planned for the future. By focusing on only one pattern, known as a “keystone habit,” Lisa launched a series of changes that affected other areas of her life.

Duhigg first became interested in habits when he learned that in the town of Kufa, Iraq, mob violence that had become a common occurrence in the town square was brought to a halt when a U.S. army major asked the city’s mayor to keep food vendors out of the plazas, effectively interrupting the Iraqi’s routine that often led to violence. The next time a crowd grew outside of the Great Mosque of Kufa, people grew hungry without the kebab sellers, the crowds dispersed, and incidents of violence plummeted.

Part One: The Power of Individuals

Chapter 1: The Habit Loop: How Habits Work

Cue – routine – reward. This is how habits work. Lab rats at MIT learned that when they heard a noise (cue), they could navigate a maze (routine) to find some chocolate (reward). Researchers noted that as the rats learned over repeated trials how to navigate the maze, their mental activity decreased. By automating the series of behaviors, known as “chunking,” the rats could essentially run on autopilot, thereby freeing up mental resources for other tasks. Similarly, learning how to back a car out of a driveway initially requires tremendous concentration and attention

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to a dozen different factors, whereas the practiced driver, having chunked the routine, can afford to daydream while backing out of the driveway.

Habits are often formed without intention, but understanding that they unfold in a three-step loop of cue – routine – reward enables us to interrupt the loop, develop different routines, and change habits. The application for personal finance is to identify the cues, routines, and rewards that shape our financial behaviors.

Chapter 2: The Craving Brain: How to Create New Habits

Cues that set the habit loop in motion must also trigger a *craving* for the reward. According to Duhigg, teeth brushing did not become a habit in the U.S. until the makers of Pepsodent added foaming agents and ingredients to create a cool, tingling sensation. The foam and tingling amount to rewards that people grew to crave. Likewise, the air freshener Febreze suffered unacceptably low sales despite being effective at removing odors – the absence of odor was not a sufficient reward for most people to use it – until the manufacturers added an appealing odor, an olfactory reward in a bottle, that people could crave.

Relating the idea of craving to personal finance, say your goal is to build an emergency fund. The craving may be the sense of security that comes from knowing that you can cover expenses for three to six months should your income cease. Want to reduce credit card debt? The craving might be a sense of accomplishment after seeing the credit card balance decrease each month.

Chapter 3: The Golden Rule of Habit Change: Why Transformation Occurs

Duhigg contends that habits cannot be erased; they must be replaced. The Golden Rule of habit change is to keep the cue, keep the reward, but change the routine. Football coach Tony Dungy simplified and automated his team's formations, removing thinking time and shaving milliseconds off of the team's game-playing routine, while leaving the cue (the start of each play) and the reward (victory) in place. The founder of Alcoholics Anonymous, Bill Wilson, stumbled upon this formula for habit change as well. He was able to quit drinking by responding to the cues of anxiety with social interaction rather than with inebriation to achieve the same reward – relief from anxiety. Whether the goal is athletic victory, sobriety, or a goal related to financial counseling and planning, Duhigg notes that believing that the goal is attainable is essential, and social support can help.

Part 2: Habits of Successful Organizations

Chapter 4: Keystone Habits, Or the Ballad of Paul O'Neill: Which Habits Matter Most

Keystone habits are the habits that, “when they start to shift, dislodge and remake other patterns” (p. 101). As CEO, Paul O'Neill led the Aluminum Company of America (Alcoa) to make record profits by focusing on the keystone habit of employee safety. Why? Transforming the way Alcoa employees communicated about safety issues transferred to the ways they communicated about ways to improve the manufacturing and business of the company. In 2008, Olympic swimmer Michael Phelps earned a record number of Olympic medals, 19, by focusing on the keystone habit of mentally visualizing the perfect race. When the moment of a race arrives, he is already halfway through his routine, from breakfast, to the music he listens to, to warming up. Completion of each step in the routine is a little victory, and the actual race is simply the next step.

The social science research cited in this chapter is of particular interest to financial counselors and planners. For example, when people begin to exercise, which appears to be a keystone habit, they often reduce their credit card use. One study even found that making the bed every morning is associated with greater ability to stick to a budget. It is worth further exploring which behaviors constitute keystone habits that improve people's financial health.

Chapter 5: Starbucks and the Habit of Success: When Willpower Becomes Automatic

Two main ideas stand out from this chapter, the first being that willpower is like a muscle and can become exhausted. In one study, participants were presented with both radishes and fresh chocolate-chip cookies and then asked to solve a puzzle. The participants who were not allowed to eat the cookies naturally had to exert their willpower to abstain from eating the cookies. Exhausting their willpower, they spent less time and effort trying to solve the puzzle. But also like a muscle, willpower can be strengthened. Findings by Oaten and Cheng indicate that keeping a written expense log may increase individuals' focus and self-control in other areas of life such as diet and exercise.

The second noteworthy idea from Chapter 5 is that willpower becomes a habit by choosing your behavior ahead of time. Writing down a plan for how to deal with anticipated stresses or drawbacks seems to help elderly hip replacement surgery patients to exercise more despite pain, and written plans help Starbucks' baristas to remain calm

and professional when a customer becomes angry. The connection between writing down a plan and writing down a budget or spending plan is clear.

Chapter 6: The Power of a Crisis: How Leaders Create Habits through Accident and Design

The two central ideas of this chapter are that a) unhealthy habits are not usually deliberately planned but evolve, and b) impending crises are valuable moments in which habits can be changed. To illustrate, Duhigg discusses the uneasy truce that emerged between nurses and certain egotistic doctors at Rhode Island Hospital, resulting in operations on the wrong side of patients' heads, mouths, and hands. The intense public scrutiny that ensued led to fundamental reforms that have made patients safer. As another example, strict divisions of responsibility within the London Underground impeded the prevention and response to a fire that left 31 dead and dozens more injured, a catastrophe that led to a reconfiguration of the organization's lines of authority. Applied to financial counseling and planning, a financial catastrophe can be an opening for clients to begin implementing healthy financial practices.

Chapter 7: How Target Knows What You Want Before You Do: When Companies Predict (and Manipulate) Habits

Companies influence our habits by nesting the new in with the familiar, a technique Duhigg refers to as "sandwiching." Target, for example, whose data experts can predict that a woman is pregnant if she begins buying items like vitamins, unscented lotion, hand sanitizer, and washcloths, will mail customized coupons to the mom-to-be, but they will sandwich the coupons for baby-related items with general merchandise so as not to unsettle the new moms. When radio listeners first heard the 2003 OutKast song "Hey Ya," they grew annoyed and switched stations. DJs began sandwiching "Hey Ya" between two songs that listeners rarely changed the dial for. As listeners began to hear the song repeatedly, they began to like it and wanted to listen, eventually earning the song a place at the top of the charts and a Grammy Award.

Part Three: The Habits of Societies

Chapter 8: Saddleback Church and the Montgomery Bus Boycott: How Movements Happen

This chapter's thesis is that social movements are built upon habits within social groups and communities. It was inconvenient for many Black residents of Montgomery not to ride the bus during the bus boycott, but social and

peer pressures within the Black community were powerful enough influences to encourage most of them to make other transportation arrangements. The Evangelical minister Rick Warren similarly capitalizes on social habits, using small groups to foster social relationships that encourage churchgoing. Natural questions that arise from this chapter related to readers of this journal are a) How can financial counselors and planners draw on social influences to enhance their practice? and b) How can clients draw on social influences to reach their financial goals?

Chapter 9: The Neurology of Free Will: Are We Responsible for Our Habits?

Duhigg's answer to the question in the chapter title is, in short, "Yes." If we have an awareness of our habits, then we are responsible for their consequences. To illustrate, Duhigg contrasts the legal culpability of two tragic individuals. The first is a bored Iowa housewife who lost all her family's assets, amounting to a million dollars and her house, playing blackjack. The second is a man who accidentally killed his wife during a sleep terror. The court ruled the gambler liable for her debts because she knew she had a gambling addiction, whereas the man was acquitted because he could not have known that his sleep terrors could result in his wife's death. Regarding financial practices, once individuals understand their financial routines, they have the power to change them.

Appendix: A Reader's Guide to Using These Ideas

In perhaps the most useful part of the book for those who wish to change their own habits, Duhigg provides a framework for habit change and offers his own example of curbing his daily cookie habit. Below is his 4-part framework. Parts 1-3 identify the cue, routine, and reward, and part 4 is the intervention designed to change the habit.

1. Isolate the cue: Research has revealed five main cues: location, time, emotional state, other people, or immediately preceding action. His cue was time, between 3 p.m. and 4 p.m.
2. Identify the routine: Every afternoon he would go to the cafeteria and buy a cookie.
3. Experiment with rewards: He bought a candy bar or tea instead, or he bought nothing and went for a walk. He learned that the reward he was craving was not the cookie but socializing.
4. Have a plan: He wrote a plan that every day at 3:30 p.m. he would get up and talk with a friend for 10 minutes.

In conclusion, *The Power of Habit* may not offer a foolproof technique for creating, breaking, or changing habits, but the stories and research findings that it presents provide enough ideas and insights that many people will undoubtedly find useful in reforming their own stubborn routines. Financial counselors and planners may find the book useful in their own personal or professional development, or they may wish to help clients identify the cues, routines, and rewards that drive their financial habits. Although the book does not include worksheets that *JFCP* readers might adapt for their own use, the Appendix would be the best point of reference when applying the core principles related to habit change.