



## How much do your biases influence your decisions?

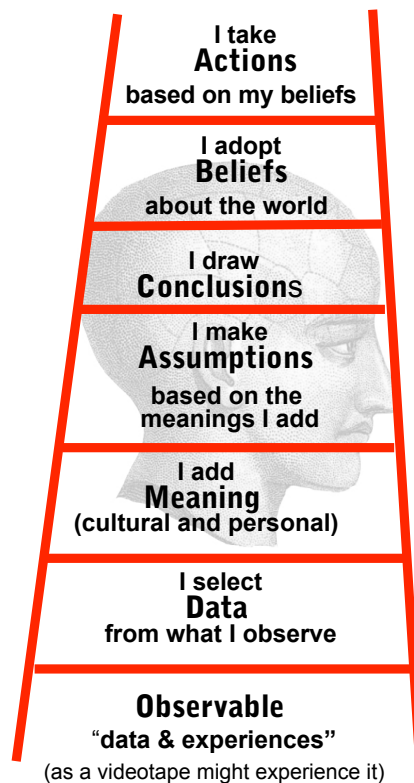
History is a wonderful teacher and from it we can find examples of bad decision-making by some of the worlds largest and most respected organisations. The Global Financial Crisis (GFC) brought home how easily the world can be caught in, group think. Also, many of you know the Kodak story (Eastman Kodak developed the digital camera in 1975 but did not invest in the technology for fear it would undercut sales of its film business, stubbornly sticking to film-based photography for way too long!!).

Managing biases in decision-making is something that most of us strive for. And yet we are all subjected to our own biases, conscious or unconscious. A quick search of articles from global management consultancies (McKinsey, Bain, etc.) shows there is increasing concern for Directors, CEOs and MDs to be aware of and to manage bias in their decision-making. A great starting list of 20 biases is provided in Annex 1. In this short article I will summarise how a couple of leaders in the field prioritise and deal with bias in a practical way.

Our Biased people have a tendency to believe what they want to believe

However, lets start by looking at just how we form biases.

### The Ladder of Inference



Organisational psychologist, Chris Argyris<sup>1</sup> built the “ladder” to explain a common mental pathway of increasing abstraction, which often lead to misguided beliefs, which form the basis for our biases.

Our beliefs are real to us but they not necessarily true.

We live in a world of self-generating beliefs (bubbles) that remain largely untested. We adopt those beliefs because they are based on conclusions, which are inferred from what we observe, plus our past experience. Our ability to achieve the results we truly desire is eroded by our feelings that:

- Our beliefs are the truth;
- The truth is obvious;
- Our beliefs are based on real data.; and
- The data we select are the real data.

As Olivier Sibony<sup>2</sup> points out: “We don’t talk about biases, because no one wants to be told they’re biased; it’s a word with horrible, negative connotations. Instead, we observe that people typically make predictable mistakes in their planning process—for instance, getting anchored on last year’s numbers.”

Brothers Chip and Dan Heath<sup>3</sup>, pulled together their collective experiences of dealing with these biases and suggest the core areas are:

- We are too narrow of focus. We are guilty of “spotlight thinking.” We focus on the obvious and visible. We miss important facts outside our immediate view.
- We fall into confirmation bias. We develop a quick belief about something and then seek out information that confirms that belief.
- We get caught in short-term emotion. We are too emotionally connected to the decision and struggle with being appropriately detached.
- We are guilty of overconfidence. We assume that we know more than we actually do know and jump to conclusions, thinking we can accurately predict the future.

The great value of the book is that it lays out a four-step decision-making *process* that can be used in any situation. It is designed to counteract the influence of the four villains and consists of four steps under the acronym (WRAP):

1. Widen your options. Too often we consider “this or that, whether or not” kind of decisions. Broadening your options to think in terms of AND rather than OR helps overcome this bias.
2. Reality-test your assumptions. Reality testing helps overcome confirmation bias – that is, when we want the results in our favour, we will choose only those tests which will help strengthen our assumptions and subconsciously leaving out those which may lead us away from our desired results. A good way to do this is to look for the opposite, seek disagreement and the reasons for it. Be willing to seek and listen to the opinions of people who play devil’s advocate or who you know will disagree with you.
3. Attain distance before deciding. Most of the time we get emotionally attached to situations at hand and make decisions, which are clouded by our temporary emotions and we avoiding thinking clearly. One of the solutions to this problem is to employ 10/10/10 principle which is nothing but:
  - 10 Minutes – How will you feel 10 minutes from now about this decision.
  - 10 Months – How will you feel 10 months from now about this decision.
  - 10 Years – How will you feel 10 years from now about this decision.

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<sup>1</sup> “*The Ladder of Inference*” was initially developed by the late Chris Argyris (organisational psychologist and former professor at Harvard Business School), and subsequently popularised in Peter Senge’s “*The Fifth Discipline: The Art and Practice of the Learning Organization*.”

<sup>2</sup> “*Making great decisions*”, McKinsey Quarterly April 2013

<sup>3</sup> “*Decisive; How To Make Better Choices in Life and Work*”, (2013)

Prepare to be wrong. The Heath brothers show how we are often wildly overconfident about the future. They suggest these three fixes to get closer to what actually happens:

1. Book-ending the future is a technique for getting closer to the bull's eye by setting low and high parameters.
2. A tripwire is a boundary beyond which you won't go before checking in and correcting course.
3. Trust the process: *"Trusting a process can permit us to take bigger risks, to make bolder choices. Studies of the elderly show that people regret not what they did but what they didn't do."*

## Which Two Heads are Better than One?

For another take on bias, Deloitte Australia's Head of Diversity and Inclusion Consulting practice, has recently published "Which Two Heads are Better than One". Drawing on extensive research she groups the multitude of biases in two ways. The first is a generic grouping: social, information and capacity. The second is more specific and this relates to how we specifically manage our decision-making (The latter can be seen in a TEDx SouthBank<sup>4</sup> talk).

### Social bias

We lean towards people or ideas that are similar to ourselves. As a consequence, we tend to underinvest in those who are different. The danger is a "false consensus effect" where people believe the view that they hold is one shared by others and anything different is uncommon.

### Information bias

"Information biases influence the way in which we process *any* information we use to make a decision. When paired with social biases, information biases are amplified," says Bourke. If our focus is limited to our preferred view it can impede breakthrough ideas and rational decision-making.

### Capacity bias

This bias is more left field, however I like the way Bourke has drawn it out. She quite correctly asserts that our ability to manage biases in the face of "finite cognitive resources and high demand" is reduced. With increased complexity of information and rapid change, there is a tendency for "Efficiency" so attention to diversity suffers.

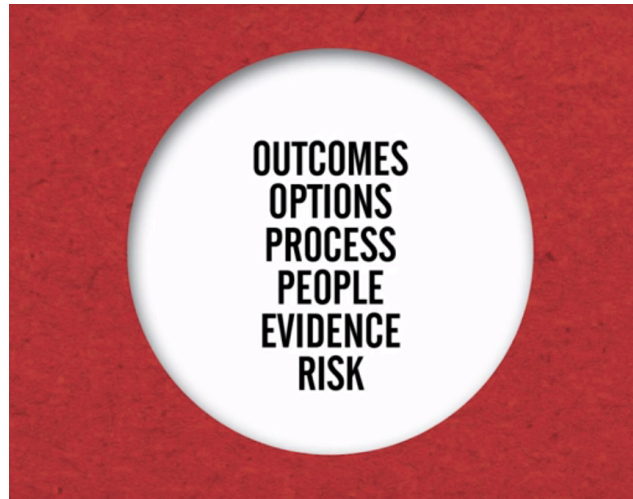
## Your decision-making bias

Bourke looked at how teams and organisations made decisions and found six styles dominated (see image below). Interestingly, 93% of the thousands of people surveyed focused on one of these areas and the remaining 7% said two of these were the most important.

What this means in practice is that we have the detail and evidence in the area of our focus and gloss over the over areas. Leaders – CEOs and MDs – mostly focused on outcomes, which means the other areas such process (and therefore realistic timelines) are less important in their decision-making criteria.

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<sup>4</sup> <https://www.youtube.com/watch?v=MZCyUANqYyw>



Each of us will have a preference for one of these. Only too frequently we will select CEOs and MDs who are “Outcome Focused”, which can lead to unrealistic expectations and even increased risks.

# Annex: 20 cognitive biases that screw up your decisions

## 20 COGNITIVE BIASES THAT SCREW UP YOUR DECISIONS

### 1. Anchoring bias.

People are **over-reliant** on the first piece of information they hear. In a salary negotiation, whoever makes the first offer establishes a range of reasonable possibilities in each person's mind.



### 2. Availability heuristic.

People **overestimate the importance** of information that is available to them. A person might argue that smoking is not unhealthy because they know someone who lived to 100 and smoked three packs a day.



### 3. Bandwagon effect.

The probability of one person adopting a belief increases based on the number of people who hold that belief. This is a powerful form of **groupthink** and is reason why meetings are often unproductive.



### 4. Blind-spot bias.

**Failing to recognize** your own cognitive biases is a bias in itself. People notice cognitive and motivational biases much more in others than in themselves.



### 5. Choice-supportive bias.

When you choose something, you tend to feel positive about it, even if that **choice has flaws**. Like how you think your dog is awesome – even if it bites people every once in a while.



### 6. Clustering illusion.

This is the tendency to **see patterns in random events**. It is key to various gambling fallacies, like the idea that red is more or less likely to turn up on a roulette table after a string of reds.



### 7. Confirmation bias.

We tend to listen only to information that confirms our **preconceptions** – one of the many reasons it's so hard to have an intelligent conversation about climate change.



### 8. Conservatism bias.

Where people favor prior evidence over new evidence or information that has emerged. People were **slow to accept** that the Earth was round because they maintained their earlier understanding that the planet was flat.



### 9. Information bias.

The tendency to **seek information when it does not affect action**. More information is not always better. With less information, people can often make more accurate predictions.



### 10. Ostrich effect.

The decision to **ignore dangerous or negative information** by "burying" one's head in the sand, like an ostrich. Research suggests that investors check the value of their holdings significantly less often during bad markets.



### 11. Outcome bias.

Judging a decision based on the **outcome** – rather than how exactly the decision was made in the moment. Just because you won a lot in Vegas doesn't mean gambling your money was a smart decision.



### 12. Overconfidence.

Some of us are **too confident about our abilities**, and this causes us to take greater risks in our daily lives. Experts are more prone to this bias than laypeople, since they are more convinced that they are right.



### 13. Placebo effect.

When **simply believing** that something will have a certain effect on you causes it to have that effect. In medicine, people given fake pills often experience the same physiological effects as people given the real thing.



### 14. Pro-innovation bias.

When a proponent of an innovation tends to **overvalue its usefulness** and undervalue its limitations. Sound familiar, Silicon Valley?



### 15. Recency.

The tendency to weigh the **latest information** more heavily than older data. Investors often think the market will always look the way it looks today and make unwise decisions.



### 16. Salience.

Our tendency to focus on the **most easily recognizable features** of a person or concept. When you think about dying, you might worry about being mauled by a lion, as opposed to what is statistically more likely, like dying in a car accident.



### 17. Selective perception.

Allowing our expectations to **influence how we perceive** the world. An experiment involving a football game between students from two universities showed that one team saw the opposing team commit more infractions.



### 18. Stereotyping.

Expecting a group or person to have certain qualities without having real information about the person. It allows us to quickly identify strangers as friends or enemies, but people tend to **overuse and abuse** it.



### 19. Survivorship bias.

An error that comes from focusing only on surviving examples, causing us to **misjudge a situation**. For instance, we might think that being an entrepreneur is easy because we haven't heard of all those who failed.



### 20. Zero-risk bias.

Sociologists have found that **we love certainty** – even if it's counterproductive. Eliminating risk entirely means there is no chance of harm being caused.



**SOURCES:** Brain Biases; Ethics Unwrapped; Explorable; Harvard Magazine; HowStuffWorks; LearnVest; Outcome bias in decision evaluation, Journal of Personality and Social Psychology; Psychology Today; The Bias Blind Spot: Perceptions of Bias in Self Versus Others, Personality and Social Psychology Bulletin; The Cognitive Effects of Mass Communication, Theory and Research in Mass Communications; The less-is-more effect: Predictions and tests, Judgment and Decision Making; The New York Times; The Wall Street Journal; Wikipedia; You Are Not So Smart; ZhurnalWiki

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Source: Samantha Lee and Drake Baer, Business Insider, December 24, 2015  
<https://www.businessinsider.com.au/cognitive-biases-that-affect-decisions-2015-8>