

BIAS GLOSSARY

Select a term:

ANCHORING

STATUS QUO

SUNK-COSTS

CONFIRMING EVIDENCE

FRAMING

OVERCONFIDENCE

PRUDENCE

RECALLABILITY

The Hidden Traps in



DECISION MAKING



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The Anchoring Trap

When considering a decision, the mind gives disproportionate weight to the first information it receives.

EXAMPLE

What to do about it:

- ✓ Always view a problem from different perspectives
- ✓ Think about the problem prior to consulting others
- ✓ Be open-minded; seek a wide variety of perspectives
- ✓ Be careful to avoid anchoring others; limit the offering of original information as if you reveal too much, your own preconceptions may come back to you

Example:

How would you answer the following:

- Is the population of Turkey greater than 35 million?
- What's your best estimate of Turkey's population?

Most people will let the number cited in the first bullet influence the figure they offer in response to the second. The population given is errant but because the number is offered first, our minds place a high level of trust and importance in the data!

In short, "When considering a decision, the mind gives disproportionate weight to the first information it receives" (Hammond, Keeney, & Raiffa, 2013).

This phenomenon is known as anchoring.

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The Status-Quo Trap

Decision Makers display a strong bias toward alternatives that perpetuate the status quo.

EXAMPLE

What to do about it:

- ✓ Always remind yourself of your objectives and examine how they would be served by the status quo – if a barrier then overcome it!
- ✓ Never think of the status quo as your only alternative
- ✓ Avoid exaggerating the effort or cost in switching from the status quo
- ✓ Remember that the desirability of the status quo will change over time - include future as well as current state evaluations

Example:

Have you ever employed a “buy and hold” mentality when purchasing stock? For many of us, we favor this approach simply because of the convenience and comfortability. It is easy enough to sell and diversify but we tend to “buy and hold” as we fear our actions might upset the status quo.

When we leave the status quo, we take action. With action comes responsibility. Responsibility can open ourselves to criticism and even regret. We favor the safe course because it is less dangerous to us and for outcomes!

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The Sunk-Cost Trap

Decision Makers who justify current choices based on past choices, even when the past choices are no longer valid, have fallen into this trap.

EXAMPLE

What to do about it:

- ✓ Seek out and listen carefully to the views of people who were uninvolved with earlier decisions and are therefore unlikely to be committed to them
- ✓ Examine why admitting to an earlier mistake distresses you
- ✓ Be on the look out for the influence of sunk-cost biases in the decision made by your team and subordinates
- ✓ Do not cultivate a failure-fearing culture!

Example:

Have you ever poured money and time into improving the performance of an employee yet, at the same time, you knew that the employee should not have been hired in the first place?

In this case, the investments have become "sunk-costs" or irrecoverable assets. The value of these assets can weigh on our minds and influence us to make decisions geared to recovering that which is long gone!

Sometimes organizational culture can reinforce this trap. Cultures should avoid overly severe penalties for good decisions that have fostered bad outcomes (Hammond, Keeney, & Raiffa, 2013).

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Confirming Evidence Trap

This bias leads us to seek out information that supports our existing instinct while avoiding information that contradicts it.

EXAMPLE

What to do about it:

- ✓ Always check to see whether you are examining all the evidence with equal rigor
- ✓ Get someone you respect to play the "devil's advocate"
- ✓ Be honest about your motives
- ✓ Avoid leading questions
- ✓ Do not surround yourself with "yes" people!

Example:

In one study, two groups – one supporting and one opposing capital punishment – were given a balanced and critical report concerning the effectiveness of the death penalty as a deterrent. Despite being exposed to solid evidence exploring the strengths and weaknesses of each position, each group automatically accepted the supported information and dismissed the conflicting information (Hammond, Keeney, & Raiffa, 2013).

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The Framing Trap

The first step in making a decision is to frame the question. But the way a problem is framed can have a profound influence upon the decision!

EXAMPLE

What to do about it:

- ✓ Do not automatically accept the first framing - beware of distortions caused by the framing
- ✓ When stating outcomes, avoid framing that fosters one outcome
- ✓ Throughout the decision making process ask yourself how your thinking might change if the framing changed

Example:

In one case involving automobile insurance, two neighboring states made similar changes to their laws. While both states gave their drivers the same decision to make, i.e. would you accept a limited right to sue if you received lowered premiums, the two states framed the decision differently. In the first state, you got the limited right to sue unless you opted out; in the second state you got the full right to sue unless you opted in to lowered premiums. Because of the framing, the second state was not able to realize reduced premiums and litigation related savings (Hammond, Keeney, & Raiffa, 2013).

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The Overconfidence Trap

Most of us tend to be overconfident in our ability to forecast or make estimates. This can lead to errors in judgement which can, in turn, foster bad decisions.

EXAMPLE

What to do about it:

- ✓ Start by considering the extremes as this will help you avoid being anchored in your original range of values
- ✓ Challenge the range established by the extremes, i.e. are there lows and highs that are real possibilities
- ✓ Challenge the estimates (constructively) of fellow project members in order to avoid this trap

Example:

In one series of test, people were asked to forecast the next week's closing Dow Jones Industrial Average. They were asked to estimate a range within which the closing value would fall. Overly confident about the accuracy of their predictions, most set too narrow a range (Hammond, Keeney, & Raiffa, 2013).

The implications are huge. If we underestimate the high end or overestimate the low end, we may miss opportunities or introduce higher levels of risk than are intended.

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The Prudence Trap

When faced with high-stakes decisions, we tend to adjust our estimates or forecasts "just to be on the safe side."

EXAMPLE

What to do about it:

- ✓ Always state your estimates honestly and explain to anyone who will be using them that they have not been adjusted
- ✓ Emphasize the need for honest input to anyone who will be supplying data
- ✓ Test estimates over a reasonable range to assess their impact
- ✓ If possible, perform sensitivity analysis or, in the least, take a look at the more sensitive estimates

Example:

Years ago, one of the Big Three US automakers was deciding on a new model. The marketing group asked other departments to supply forecasts of key variables, e.g. anticipated sales, inventories, competitor actions, costs, etc. Knowing why the marketing group was asking for the forecasts, each group skewed the data to favor more cars – just to be safe! Not surprisingly, the number of cars produced far exceeded demand. The company took six months to sell off the surplus and lost money due to the bias (Hammond, Keeney, & Raiffa, 2013).

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The Recallability Trap

Because we frequently base projections on dramatic past events, the probabilities assigned to the future events can be skewed.

EXAMPLE

What to do about it:

- ✓ Carefully examine all your assumptions to ensure they're not unduly influenced by memory
- ✓ Get "actuals" whenever possible
- ✓ Try not to be guided by impressions

Example:

We all, for example, exaggerate the probability of rare but catastrophic occurrences such as plane crashes. But a personal event can also distort your thinking. If you have recently had a traffic accident you may assign a higher chance of traffic accidents (Hammond, Keeney, & Raiffa, 2013).