

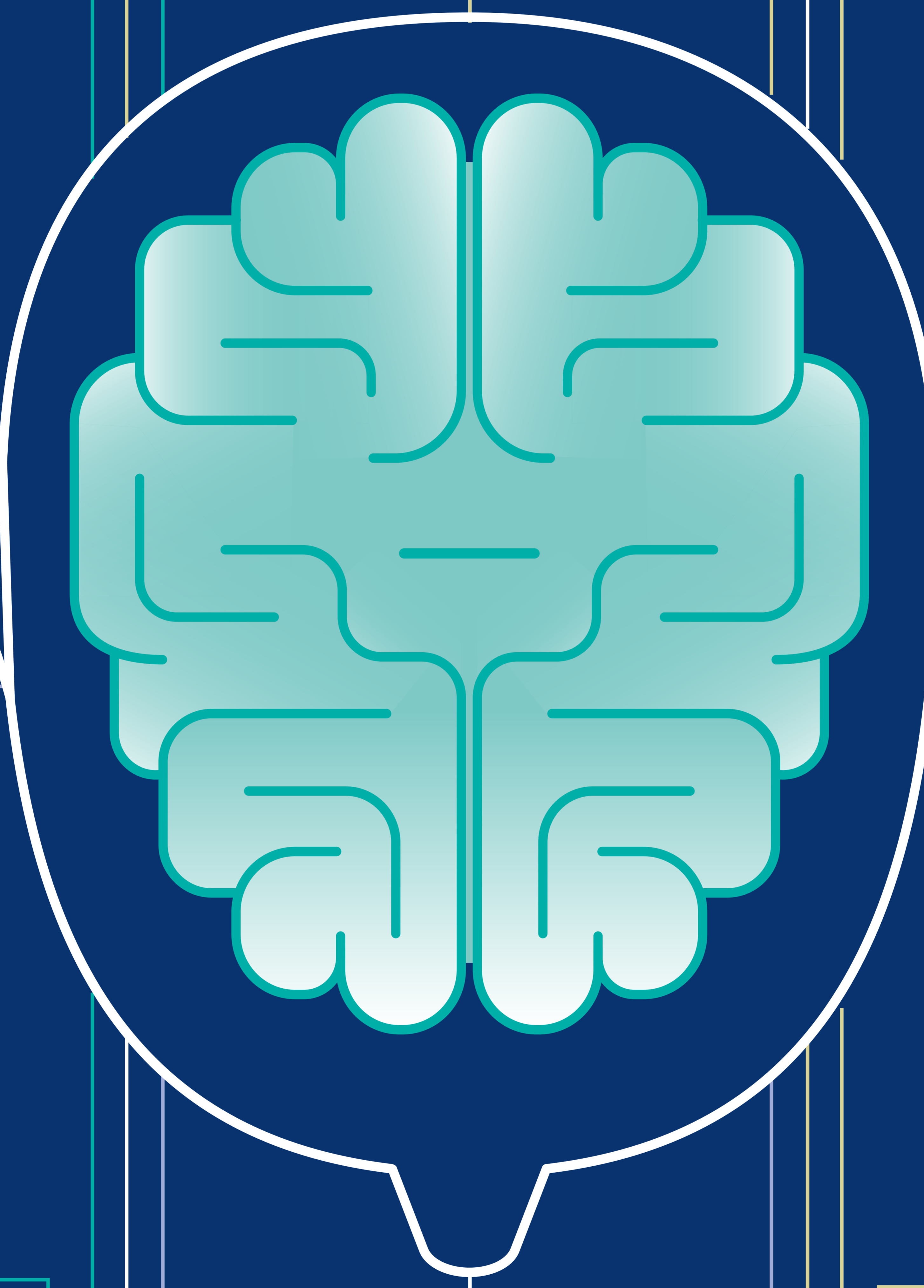
Cognitive bias

When it comes to assessing risk, humans often fail to make rational decisions because our brains take mental shortcuts that prevent us making the correct choice. Since the 1960s behavioural scientists and psychologists have been researching these failings, and have identified and labelled dozens of them. Here are some that can cause havoc when it comes to assessing risks in business

- Social
- Failure to estimate
- Financial
- Short-termism

ORIGIN

The notion of cognitive biases was first introduced by psychologists Amos Tversky and Daniel Kahneman in the early-1970s. Their research paper, 'Judgment Under Uncertainty: Heuristics and Biases', in the Science journal has provided the basis of almost all current theories of decision-making and heuristics. Professor Kahneman was awarded a Nobel Prize in 2002 after further developing the ideas and applying them to economics.



BELIEF BIAS
Basing the strength of an argument on the believability or plausibility of the conclusion

"I didn't quite follow your argument but the conclusion seems about right"

BLIND SPOT BIAS
Viewing oneself as less biased than others

"Let's ignore Sarah's views on this one. She's biased"

CLUSTERING ILLUSION
Erroneously overestimating the importance of small clusters or patterns in large data

"This is the second week in a row that this has happened. There must be a problem"

ANCHORING EFFECT
Relying too much on the initial piece of information offered when making decisions

"The first test seemed OK. Do we need to look any more?"

AVAILABILITY HEURISTIC
Overestimating the importance and likelihood of events given the greater availability of information

"I saw something very similar to this on LinkedIn. We need to take it seriously"

BANDWAGON EFFECT
Believing things more based on the number of people who share that belief

"The whole department knows there's no problem here"

CONFIRMATION BIAS
Focusing on information that only confirms existing preconceptions

"We did loads of simulations. Most of them showed there's no problem"

COURTESY BIAS
Giving an opinion/conclusion that is viewed as more socially acceptable so as to avoid causing offence/controversy

"The last time we discussed this the meeting lasted for hours. Let's move on"

ENDOWMENT EFFECT
Irrationally overvaluing something you own regardless of its objective market value

"I know it will cost a fortune to fix but it cost us £15,000. We can't just throw it away."

"Dave from tech is worried - but frankly the tech team are always pessimists"

STEREOTYPING
Assuming a person has characteristics because they are a member of a group

"Our competitors are only doing well because their products are cheap"

REACTIVE DEVALUATION
Devaluing an idea because it originated from an adversary or opponent

"This worked fine in the factory in the Korea, it should work fine here"

ILLUSION OF VALIDITY
Overestimating the importance and likelihood of events given the greater availability of information

"If it ain't broke - don't fix it"

STATUS QUO BIAS
Preferring the current state of affairs over change

"We made a good call on that one"

POST-PURCHASE RATIONALISATION
Persuading yourself that a purchase was the right decision

"Let's just get the deal done ASAP"

HYPERBOLIC DISCOUNTING
Preferring a smaller, sooner payoff over a larger, later reward

"Now we've got the new equipment we can cut the time spent on maintenance"

RISK COMPENSATION
Taking bigger risks when perceived safety increases; being more careful when perceived risks increases

"Looks like we've run out of time to discuss this"

OSTRICH EFFECT
Avoiding negative financial information by pretending it doesn't exist

"The conveyor belt broke three times last month. It's pretty unlikely it'll happen again."

GAMBLER'S FALLACY
Believing that future probabilities are altered by past events, when in fact they are unchanged