Beyond Belief: How Cognitive Biases Shape Our World

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Scientists and psychological researchers are constantly trying to figure out why people do the things they do. The notion of cognitive bias was first introduced in 1972 by Daniel Kahneman and his colleague Amos Tversky. In 2002, Daniel Kahneman won the Nobel Prize in Economics for his research on how human judgments often take shortcuts that depart from basic principles of probability and rationality, otherwise known as prospect theory. Since the 1970s, and especially more recently, research on cognitive bias has grown.

The Central Intelligence Agency (CIA) defines cognitive biases as mental errors that are caused by simplified information processing strategies. Although many professionals (including risk professionals and entity leaders) consider themselves generally unbiased in most regards, in truth, implicit biases underlie everything we do. For a risk management professional, knowing what types of potential biases may be at play in a given situation can help you prevent these biases from affecting your judgments and decisions in negative ways.

One very revealing example, reviewed in the December 2014 issue of ***HR Magazine***, published by the Society for Human Resource Management (SHRM), is the assessment known as the Implicit Association Test (IAT). Introduced in 1995, the IAT is intended to surface subconscious biases. In 1998, Harvard University, in collaboration with several other universities, began an effort to educate the public about implicit social attitudes and beliefs. The initiative, called Project Implicit, hosts fourteen IAT tests that are open to the public, addressing stereotypes in areas ranging from gender-career stereotypes to religion and age. The findings and results from the IAT tests are certain to surprise you!

Further complicating the modern discussion of cognitive biases is the fact that there are SO many, and people seem to be rushing to uncover and name new biases. There is no consensus on the true number of specific biases, and this can make analyzing which biases might be affecting your decisions even more difficult. A recent article by *Business Insider* titled *58 Cognitive Biases That Screw Up Everything We Do* lists too many biases to discuss in this article. However, a few of them are especially pertinent to risk management. Here's a list of some of our favorites, along with tips to prevent getting tripped up by bias traps.

- **Information Bias**—This bias refers to the tendency to seek and rely on information even when it is ultimately of little value. Information bias shows up when leaders are ensnared by a risk management framework or taxonomy. Trying to conduct an exhaustive survey of risk frameworks? Frustrated trying to construct a risk register with reliable scores for probability and severity? Many leaders new to risk

management get bogged down thinking that research on what other organizations are doing will satisfy the request of the governing body that the entity update its risk management program. A better approach is to ask: are we effectively monitoring our environment and other factors that influence the probability and potential consequences of future risk events? What steps can we take to better understand risk and build resilience? Focus on preparing to respond to surprises instead of allowing potential problems to slowly simmer while your organization perfects a new color-coded 3D risk management model.
- **Outcome Bias**—This bias refers to the tendency to judge a decision based on the outcome, rather than how and why the decision was made. For example, just because your organization was able to land a new grant after submitting a last-minute, poorly written proposal doesn't mean that waiting until the night before the proposal to write it was a good idea. In organizations that have dealt with situations that ended well, but poor choices were made along the way, many times the decision-making that led to the near-miss isn't assessed after the fact. To strengthen risk management practices, analyze decision-making leading to ALL outcomes regardless of whether the outcome was good or bad, and *especially* if it was nearly bad.
- **Zero-Risk Bias**—This bias refers to the preference for reducing a small risk consequence to zero versus achieving a greater reduction in a larger risk consequence. Many people are risk-averse. Not surprisingly, this tendency toward risk aversion applies to many risk management professionals! For example, if given the opportunity to completely eliminate the potential for a small risk to occur or the opportunity to eliminate the potential of a significant risk by 50 percent, many risk managers would choose the first option, even if the risk event may result in positive consequences in addition to negative ones. To fight this bias, consider focusing your attention on managing the underlying conditions that increase the potential for negative consequences from risk events, rather than focusing solely on reducing the potential for a future event to occur. Also, remember that the main goal of risk management is to protect your organization, not eliminate the risks it faces or embraces.

To explore the topic of cognitive bias further, check out *Fast Company's* article on subconscious mistakes your brain makes, or the *Harvard Business Review* article on some specific things to keep in mind to ensure you are making quality decisions.

To find out more about the Nonprofit Risk Management Center, email info@nonprofitrisk.org or call 703.777.3504.