




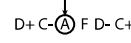














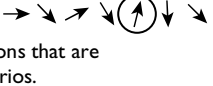
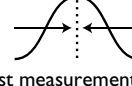


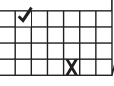


# Cognitive Bias Bingo

We like to think that we make decisions analytically and impartially. In fact, most of our decision-making processes fly under the radar of our conscious awareness. Cognitive biases are mental shortcuts that can covertly influence decisions. Gaining awareness of these biases is an important step to overcoming them. The next time you're in a position to quietly observe a group discussion, check off which of the biases below you observe that may be at work. Just try to avoid shouting "bingo!" when you get five in a row.

<p><b>Affect Heuristic</b></p>  <p><b>Definition:</b> Making decisions based on emotion rather than objective data.</p> <p><b>Example:</b> Americans travelled less by plane after the September 11, 2001 terrorist attacks although flying remained the safest way to travel.</p> <p><b>How it might show up:</b> "I really don't like what I'm hearing! I just can't get behind this. This is upsetting. It just doesn't feel right."</p>	<p><b>Anchoring Bias</b></p>  <p><b>Definition:</b> A form of priming, anchoring gives the first piece of data (relevant or not) disproportionate weight, skewing the following discussion.</p> <p><b>Example:</b> Beginning a discussion around a software change with the fact that the software has millions of users may cause the team to be overly cautious if the change is actually invisible to users.</p> <p><b>How it might show up:</b> "Welcome everyone! Did anyone watch the Sixers game last night?" Later: "We should start our bid at six hundred thousand."</p>	<p><b>Automation Bias</b></p>  <p><b>Definition:</b> Undue trust in automated systems or computer results.</p> <p><b>Example:</b> A news agency sent a film crew to Tahrir Square in Cairo solely on the results of predictive analytics based on Twitter feeds.</p> <p><b>How it might show up:</b> "A regression analysis of price features predicted that the cost of fuel is going to go up for the next three years. We should lock in our gas prices now."</p>	<p><b>Availability Heuristic</b></p>  <p><b>Definition:</b> Giving more credence to information we are already aware of, even if that awareness is subconscious.</p> <p><b>Example:</b> In 2012, most survey respondents believed that the S&amp;P 500 Index was down or flat from 2009 to 2011, despite it being up those years. The shock of the 2008 economic crisis colored their opinion.</p> <p><b>How it might show up:</b> "An article I read this morning is relevant to the decision we're making."</p>	<p><b>Bandwagon Effect</b></p>  <p><b>Definition:</b> A form of groupthink, the tendency to believe something is true if others around us already believe it to be true.</p> <p><b>Example:</b> After initially apprehensive lenders saw their peers offering riskier and riskier loans in 2008, they too began to offer financing to people with low credit scores.</p> <p><b>How it might show up:</b> "The five of us think this is the right thing to do. What about you?" "Yep, I'll go along with it."</p>
<p><b>Base Rate Fallacy</b></p>  <p><b>Definition:</b> The tendency to ignore general information and focus on more specific but less meaningful data, especially when the data says what we want it to say.</p> <p><b>Example:</b> Chrysler boasted of quality progress because their metric of "things gone wrong" went down even as Chrysler was ranked near the bottom in reliability.</p> <p><b>How it might show up:</b> "We know we're performing well because our utilization rates are high."</p>	<p><b>Clustering Illusion</b></p>  <p><b>Definition:</b> Finding patterns in randomness.</p> <p><b>Example:</b> Seeing religious icons in toast; Londoners believing Germans rocketeers were targeting working class neighborhoods in WWII.</p> <p><b>How it might show up:</b> "We're not exactly sure why, but we've seen a jump in sales every spring. We should increase production now to be ready for this coming spring."</p>	<p><b>Confirmation Bias</b></p>  <p><b>Definition:</b> Giving more credit to data that confirms what we already believe or decisions we've already made.</p> <p><b>Example:</b> Subscribing to news sources or social media feeds that reflect one's own political views.</p> <p><b>How it might show up:</b> "Since we made the decision to move our IT infrastructure to the cloud, I found this article that highlights the benefits of cloud migration. It just goes to show we made the right call."</p>	<p><b>Curse of Knowledge</b></p>  <p><b>Definition:</b> Better-informed people find it difficult to see an issue from the perspective of those who are less informed.</p> <p><b>Example:</b> Panasonic's plasma TVs were better than competitors' LCDs in every way, except they didn't look as good as LCDs under the fluorescent lights of big-box stores. Panasonic was unable to sell its plasma TVs solely on the basis of their technical superiority.</p> <p><b>How it might show up:</b> "This system has the latest QR100 protocols and is one hundred percent 508 compliant. Users will love it."</p>	<p><b>Framing Effect</b></p>  <p><b>Definition:</b> Drawing different conclusions from the same data depending on how the information is presented.</p> <p><b>Example:</b> Xerox sold its Star workstation as a document management machine. Apple and Microsoft took the same technology and sold it as PCs.</p> <p><b>How it might show up:</b> "We've used agile processes successfully in our software development, but that's just because agile is meant for software. It could never work with product development."</p>
<p><b>Gambler's Fallacy/Hot-Hand Fallacy</b></p>  <p><b>Definition:</b> The belief that future probabilities are altered by past events.</p> <p><b>Example:</b> On August 18, 1913, at the Casino de Monte-Carlo, black came up 26 times in a row on a roulette wheel. Gamblers lost millions betting on red because they believed the streak must end, despite the odds remaining the same from one spin to the next.</p> <p><b>How it might show up:</b> "Just because that's happened the last seven times is no guarantee it will happen again. If anything, we're pushing our luck. We should quit while we're ahead."</p>	<p><b>Hindsight Bias</b></p>  <p><b>Definition:</b> The belief that, after an event has occurred to someone else, one could have anticipated the outcome if they were in that position.</p> <p><b>Example:</b> When looking at companies that failed in the past, investors believe they would have "seen the signs" and rate themselves as unlikely to have invested in the failed companies.</p> <p><b>How it might show up:</b> "Well, our competitor's attempt may have failed. But we won't make the same mistakes."</p>	<p><b>Illusions of Control</b></p>  <p><b>Definition:</b> The tendency to exaggerate one's own influence on external events.</p> <p><b>Example:</b> Managers and supervisors believe they can exert power and influence overcome organizational inertia and cultural resistance.</p> <p><b>How it might show up:</b> "At the end of the day, I'm the boss, and they'll do what I tell them."</p>	<p><b>Loss Aversion</b></p>  <p><b>Definition:</b> The desire to avoid loss is stronger than the desire to reap a reward. Related to endowment bias: the tendency of an individual to ascribe more value to objects he or she already owns than those not possessed.</p> <p><b>Example:</b> Despite changing consumer needs, businesses are unlikely to give up a failing core business to pursue new opportunities and markets.</p> <p><b>How it might show up:</b> "There's no guarantee this idea will work. Better to stick with how we've always done things. We've been successful in this business for twenty years."</p>	<p><b>Negativity Bias</b></p>  <p><b>Definition:</b> The tendency to give bad experiences more weight than good experiences.</p> <p><b>Example:</b> Customers recall a company's mistakes more vividly than normal performance or even exceptionally good performance.</p> <p><b>How it might show up:</b> "For years, I was always a loyal customer to that airline. But there was one flight that was just horrible. I'll never fly with them again."</p>
<p><b>Normalcy Bias</b></p>  <p><b>Definition:</b> Difficulty in imagining disasters that have not occurred lead to underestimating the odds of a worst-case scenario or minimizing its impact.</p> <p><b>Example:</b> Nassim Nicholas Taleb's book, <i>The Black Swan</i>, describes a black swan as a completely unexpected but hugely impactful event. Although they are becoming more common, school shootings are black swan events due to normalcy bias.</p> <p><b>How it might show up:</b> "That can't happen here."</p>	<p><b>Optimism Bias (or Illusory Superiority)</b></p>  <p><b>Definition:</b> Underestimating one's own shortcoming, overestimating one's abilities, and exaggerating one's ability to predict future events.</p> <p><b>Example:</b> In a 2000 survey, 87% of Stanford MBAs rated their own academic performance as being in the top 50%. 93% of American drivers believe they are above average.</p> <p><b>How it might show up:</b> "We're smart. We're experienced. We can handle this. We'll succeed where others failed."</p>	<p><b>Ostrich Effect</b></p>  <p><b>Definition:</b> Avoiding bad news; ignoring negative data or information both actively and unconsciously.</p> <p><b>Example:</b> Significantly fewer investors check the value of their investments during bear markets.</p> <p><b>How it might show up:</b> "The results of the analysis aren't important. We need to be looking forward." "You can't trust what you hear from finance; they're always pessimistic and overly cautious."</p>	<p><b>Outcome Bias</b></p>  <p><b>Definition:</b> Attributing the cause of an outcome to an individual's action when the outcome may have been just blind luck.</p> <p><b>Example:</b> Business executives will attribute their success to the fitness of their own planning efforts rather than market conditions or other external factors.</p> <p><b>How it might show up:</b> "Give the project to Bob. He always comes in on time and under budget."</p>	<p><b>Overconfidence</b></p>  <p><b>Definition:</b> Expertise leading to overestimating one's ability to forecast the future.</p> <p><b>Example:</b> Experts are more likely to consult only themselves and make decisions based on their own existing views. ¾ of all U.S. mutual funds fail to beat the market.</p> <p><b>How it might show up:</b> "Look, I've been in this business for years. I've seen it all. I know how these things always play out."</p>
<p><b>Planning Fallacy</b></p>  <p><b>Definition:</b> Planning against assumptions that are unrealistically close to best-case scenarios.</p> <p><b>Example:</b> Over a 30-year period, railway project planners overestimated the number of passengers that would use planned improvements by 90%.</p> <p><b>How it might show up:</b> "The new version is so good that users will come flocking to it. Our projection predicts a huge uptick in sales."</p>	<p><b>Regression Fallacy (or Regression to the Mean)</b></p>  <p><b>Definition:</b> A variable that is extreme in its first measurement will tend to be closer to average on subsequent measurements.</p> <p><b>Example:</b> On average, the gap between outstanding and less successful firms examined in the book <i>Built To Last</i> by Jim Collins and Jerry Porras shrank to almost nothing after the book was published.</p> <p><b>How it might show up:</b> "Our new hire from ASU has the best sales numbers. Let's boost our recruiting efforts there."</p>	<p><b>Status Quo Bias</b></p>  <p><b>Definition:</b> Preference for things as they already are. Related are existence bias (the perception that a thing is good because it already exists) and longevity bias (the longer a thing has existed, the more positive the perception of the thing.)</p> <p><b>Example:</b> Investors have a strong preference for maintaining their current fund choices, even if those choices are no longer the best.</p> <p><b>How it might show up:</b> "We've always done it this way."</p>	<p><b>Sunk-Cost Fallacy (or Summit Fever)</b></p>  <p><b>Definition:</b> Difficulty cutting losses, even when continuing will lead to greater losses. Can lead to irrational escalation.</p> <p><b>Example:</b> Mountain climbers' willingness to turn back drops the closer they get to the summit despite risk. Manufacturers keep factories running even though they are losing money.</p> <p><b>How it might show up:</b> "We've already gone this far, we can't quit now. We've already invested so much into this."</p>	<p><b>Temporal Discounting</b></p>  <p><b>Definition:</b> A focus on the immediate effects rather than on the long-term effects of a decision. Related to the desire for instant gratification.</p> <p><b>Example:</b> Rather than investing in long-term strategies, business executives will opt for short-term tactics that will boost the company's stock price in the next quarter.</p> <p><b>How it might show up:</b> "That's won't affect us for months. We need to focus on what's important now."</p>