Addressing Behavioural Bias in Decision Making

by Susan D. Cranston, CEBS
All of us face internal and external factors that create biases impacting our decisions. It’s important for trustees and administrators, given the level of responsibility for others, to identify and minimize these biases.
Decisions, Decisions, Decisions

Every day you make decisions. You decide about food, finances, what to wear, who to spend time with, where you work and where you live. As trustees and administrators, you make determinations on health care and retirement benefits, which entail decisions on investments, compliance, allocation, delegation, regulation, accounting, auditing, insurance—The list goes on and on.

According to a recent study, the average adult makes remotely conscious decisions 35,000 times a day.1 If this number seems ridiculously large, consider that you make 226.7 decisions each day on food alone.2 If you visit Starbucks, you have 87,000 different drink combinations from which to choose.3

Making decisions might not be something you actively consider. Perhaps it is because many of the decisions are relatively small. Yet how well you make decisions can significantly affect your personal and professional life. For those in fiduciary positions, your choices also can greatly impact the lives of others. Making good decisions helps you avoid painful mistakes. It can also help you achieve success.

As you advance in your career, there is a greater likelihood that your decisions will become bigger, more strategic and more significant. This means your decisions could be costlier and riskier too. For those working in the pensions and benefits industry, a strong sense of fiduciary responsibility exists. For those who act as trustees and administrators, your decisions are under considerable scrutiny. Your decisions also are influenced by a host of internal and external factors. It becomes even more important that you make knowledge-based decisions that buffer the damaging effects of human biases.

Before addressing the impact of behavioural bias in decision making, it is important to consider different decision-making styles. Whether working independently, in a team or with a committee, knowing your own style and the decision-making style of others can prove beneficial.

What's Your Decision-Making Style?

- **Impulsive.** The first choice is the one you take.
- **Fatalistic.** You let fate decide. What will be, will be.
- **Compliant.** You will go along with what everyone else wants. It doesn’t matter to you, so someone else’s opinion can overrule yours.
- **Delaying.** You can’t make a decision now. You need more time!
- **Agonizing.** Your brain is buffering. You are overwhelmed by the decision-making process. You can’t decide.
- **Balanced.** You gather information and weigh the factors before making a decision.

Are you able to identify your principal decision-making style from this list? Perhaps it is self-evident that the ideal approach is a balanced one. The inventor Benjamin Franklin was a fan of the balanced approach to decision making and is credited with introducing the pros-and-cons list as far back as 1772. It proved a simple but helpful method for making balanced and thoughtful decisions. Listing the pros on one side of a page and the cons on the other provides an opportunity to weigh the significance and risk of each point.

Beyond an awareness of decision-making styles, it is important to realize the existence of behavioural vulnerabilities that are influenced by subconscious factors. Making decisions can seem instinctive but, for those tasked with an accountability to plan members coupled with a significant fiduciary responsibility, knowledge-based decision making warrants the application of a risk management process that eliminates bias wherever possible.

Many assume that those with greater intelligence make better decisions when, in fact, they may be more vulnerable to behavioural bias than those with less cerebral inclinations.4 Research done at James Madison University and the

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**Takeaways**

- The average adult makes 35,000 remotely conscious decisions each day.
- It is important to consider your decision-making style as well as the styles of colleagues.
- Behavioural biases impact our decision making, regardless of intelligence or education.
- In addition to impacting individuals, biases also affect group decisions.
- You can learn to apply a process for mitigating biases in your decision making.

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“Let the views of others educate and inform you, but let your decisions be a product of your own conclusions.”

—Jim Rohn
University of Toronto indicated that those with cognitive sophistication showed larger bias blind spots where they could see the flawed thinking of others but not in themselves.

There are several noteworthy behavioural biases.

1. **The anchoring effect.** You are influenced by the first piece of information offered. It becomes your anchor, and you can’t dismiss it. This information is used to make subsequent decisions.

2. **Framing.** The way in which a situation is presented to you will influence your decision making. You react to a particular choice in different ways, depending on how the choice is presented. For example, your decision might differ if a choice is framed as a loss versus as a gain.

3. **Availability heuristic (rule of thumb).** Recent events weigh disproportionately higher than past events. Example: You may be reluctant to fly after learning of a recent plane crash. Or, as a trustee, you might select overly conservative plan investments following a downturn in the economy.

4. **Confirmation bias.** You have a thought and then make a decision based on it. You start to look for evidence, data and numbers to support your decision. You ignore contrary opinions and information.

5. **Commitment escalation.** You’ve already invested a lot of resources. It is too late to stop now and accept sunk costs. You keep going with your decision, even if it produces a loss and greater risk.

6. **The overconfidence effect.** You overestimate the value of your opinion. You think your opinion matters more than the opinions of others, and you believe, unwaveringly, in the accuracy of your decision-making capability.

**Know the Problem**

In the movie *Moneyball* with Brad Pitt, there is a scene known as the “What’s the Problem?” clip that supports the dangers of individual and group bias. Pitt plays Billy Beane, the general manager of a professional baseball team who is tasked with bringing success to a failing squad. With a ton of pushback, Pitt’s character manages to help his management team address their behavioural biases. He confronts them with a simple yet complex question: “What’s the problem?” Pitt’s character steers his management team away from what they wrongly keep thinking of as the baseball team’s major problem. He shows them how to clearly define the actual issue.

**Group Biases**

Where committees and teams are involved, individual behavioural bias gets mixed in with the group dynamic, causing other biases to surface. In group or committee scenarios, individuals give over their decision-making power to the group, thereby allowing social influence to contribute to the outcome.

**Groupthink**

The decision of the group might result in a significantly different choice than what might have been made at an individual level. The term *groupthink* refers to the idea that decision making stems from people seeking conformity or harmony. With groupthink, a suboptimal or flawed decision can easily be made.

**Group Cohesion**

High solidarity and minimal dissenting opinions can negatively impact effective decision making in groups.

**Shared Information Bias**

Shared information bias is another concern that can go unnoticed in groups. Even though it would be helpful to raise unshared information with the group, often people want to reach a consensus and find closure. They focus on discussing shared information. They don’t disclose information that isn’t commonly known to many in the group.

**Minimize the Bias**

It’s hard to imagine one’s blind spot or potential decision-making flaws. At the time a decision is made, it is easy to have confidence in one’s logic, instincts, background and education. Even the most experienced and intelligent among us are not immune to decision-making bias. Minimizing bias involves challenging what is known. It recognizes where there is vulnerability. Greater vulnerability exists when a bias is particularly difficult to recognize. This can be the case with confirmation bias, anchoring and overconfidence.

*Confirmation bias* exists when you look for information that validates your belief. Subsequently, you subconsciously dismiss or discredit any information to the contrary, even if it means dismissing valuable insights. You avoid the opportunity for any revelations that don’t support your belief. In essence,
you can find support for any belief. No one wants to be wrong, and so it is natural to find ways to support a position. Let’s say an administrator of a health plan dismisses a claim. On appeal, the administrator might seek information that supports the dismissal and ignore evidence to the contrary.

To address confirmation bias:
- Ask the opinions of others, and talk about your beliefs with a wide-ranging group of people.
- Ask appropriate and careful questions. Don’t selectively filter information to back up your belief.
- Look for disagreement with your position.
- Stay open to gathering information, even if it is contrary to your view.
- Check in with your ego. It is never easy to be wrong, but it is better to find out early before the wrong decision comes back to haunt you.

The anchoring effect is another bias tendency that is difficult to avoid. It is a bias that plays with your emotional response to first impressions. With anchoring, it is easy to jump to conclusions based on your first impression. Anchoring tends to appear when the decision to be made is time-sensitive.

For example, when a health plan negotiates reimbursement arrangements, the initial daily rate for a hospital stay serves as the anchor for negotiations thereafter. A price that is lower than the initial daily rate might seem more reasonable even if the rate is still too high to provide value to the plan.

To address the anchoring effect:
- Avoid the urge to rush to any outcome. Take the time you need, even if you feel pressure from others.
- Think about other comparisons. Seek out alternative views, options and information so you have a chance to pull up anchor on your first impression.
- Find out as much as you can on the subject. Step back, and try to get a holistic view of the issue.

The overconfidence effect is a bias that places too much confidence in one’s own opinions. It can also be perceived that a person displaying the overconfidence bias believes his or her opinion matters most.

A trustee who is certain that he or she knows the right allocation of stocks, bonds and alternative investments for the current market might ignore differing advice from a professional advisor.

To address the overconfidence effect:
- Clearly define the problem.
- Identify fundamental objectives.
- Ask yourself if the information you are using to make your decision is reliable.
- Involve others in the decision-making process.
- Systematically gather information for your research on the subject.

Just as you had to learn to throw a ball or tie your shoes, learning to apply a process for mitigating bias is no different. Working through this process may at first seem uncomfortable, but it creates the ability to identify and minimize decision-making risks associated with behavioural bias.

Learn More

Education
36th Annual ISCEBS Employee Benefits Symposium
September 17-20, Denver, Colorado
Visit www.ifebp.org/symposium for more information.

From the Bookstore
Employee Benefits in Canada, Fourth Edition
Mark Zigler, D. Cameron Hunter, Murray Gold, Michael Mazzuca and Roberto Tomassini.
International Foundation. 2015.
Visit www.ifebp.org/employeebenefitsoncanada for more information.

Morneau Shepell Handbook of Canadian Pension and Benefit Plans
Bethune Whiston and J. Gregory Clooney.
LexisNexis. 2016.

Takeaway Tips
1. Consider the sources of information you often rely on when making decisions.
2. Seek out dissenting views, and get comfortable with contrary opinions.
3. Look for outside opinions and subject matter experts to counter existing beliefs.
4. Don’t rush to find closure and consensus. Provide unshared information even if it slows down the time it takes to reach a conclusion.
5. Seek to understand the real problem or question that needs a decision. Flip the problem on its head to ensure you are addressing the actual issue.

6. Don’t allow what already has been lost to a decision to influence your commitment to continue down a flawed path.

7. Don’t allow what is believed to be publicly known about the issue to carry more weight than is deserved in your decision-making process.

8. Challenge yourself. Before finalizing a decision, ask yourself if your conclusion is based on hunches or based on facts.

Conclusion

With icebergs, you only spot the tip. Their bulk remains unseen in the ocean depths. Bias is not dissimilar. It is driven by behaviours stemming from inherent assumptions. Recognize that biases exist. Don’t let emotions and preferences stand in your way. Gather information systematically. By applying rigour, research and common sense, you will be well-positioned to mitigate bias and generate knowledge-based conclusions that drive successful outcomes.

Endnotes


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