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A language to discuss biases

Psychologists and behavioral economists have identified dozens of cognitive biases. The typology we present here is not meant to be exhaustive but rather to focus on those biases that occur most frequently and that have the largest impact on business decisions. As these groupings make clear, one of the insidious things about cognitive biases is their close relationship with the rules of thumb and mind-sets that often serve managers well. For example, many a seasoned executive rightly prides herself on pattern-recognition skills cultivated over the years. Similarly, seeking consensus when making a decision is often not a failing but a condition of success. And valuing stability rather than "rocking the boat" or "fixing what ain't broke" is a sound management precept.

This bias typology was prepared by Dan Lovallo and Olivier Sibony.

Action-oriented biases

drive us to take action less thoughtfully than we should.

Excessive optimism. The tendency for people to be overoptimistic about the outcome of planned actions, to overestimate the likelihood of positive events, and to underestimate the likelihood of negative ones.

Overconfidence. Overestimating our skill level relative to others', leading us to overestimate our ability to affect future outcomes, take credit for past outcomes, and neglect the role of chance.

Competitor neglect. The tendency to plan without factoring in competitive responses, as if one is playing tennis against a wall, not a live opponent.

Interest biases

arise in the presence of conflicting incentives, including nonmonetary and even purely emotional ones.

Misaligned individual incentives. Incentives for individuals in organizations to adopt views or to seek outcomes favorable to their unit or themselves, at the expense of the overall interest of the company. These self-serving views are often held genuinely, not cynically.

Inappropriate attachments. Emotional attachment of individuals to people or elements of the business (such as legacy products or brands), creating a misalignment of interests.[1]

Misaligned perception of corporate goals. Disagreements (often unspoken) about the hierarchy or relative weight of objectives pursued by the organization and about the trade-offs between them.

[1] Sydney Finkelstein, Jo Whitehead, and Andrew Campbell, *Think Again: Why Good Leaders Make Bad Decisions and How to Keep It fromHappening to You*, Boston: Harvard Business Press, 2008.

Pattern-recognition biases

lead us to recognize patterns even where there are none.

Confirmation bias. The over-weighting of evidence consistent with a favored belief, underweighting of evidence against a favored belief, or failure to search impartially for evidence.

Management by example. Generalizing based on examples that are particularly recent or memorable.

False analogies—especially, misleading experiences. Relying on comparisons with situations that are not directly comparable.

Power of storytelling. The tendency to remember and to believe more easily a set of facts when they are presented as part of a coherent story.

Champion bias. The tendency to evaluate a plan or proposal based on the track record of the person presenting it, more than on the facts supporting it.

Stability biases

create a tendency toward inertia in the presence of uncertainty.

Anchoring and insufficient adjustment. Rooting oneself to an initial value, leading to insufficient adjustments of subsequent estimates.

Loss aversion. The tendency to feel losses more acutely than gains of the same amount, making us more risk-averse than a rational calculation would suggest.

Sunk-cost fallacy. Paying attention to historical costs that are not recoverable when considering future courses of action.

Status quo bias. Preference for the status quo in the absence of pressure to change it.

Social biases

arise from the preference for harmony over conflict.

Groupthink. Striving for consensus at the cost of a realistic appraisal of alternative courses of action.

Sunflower management. Tendency for groups to align with the views of their leaders, whether expressed or assumed.

To listen to the authors narrate a more comprehensive presentation of these biases and the ways they can combine to create dysfunctional patterns in corporate cultures, visit mckinseyquarterly.com.