



JONES COLLEGE OF BUSINESS

Unconscious Bias and Ethics in Governmental Decision-Making

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Simple math problem . . .

Bat ~~X~~ \$1.00?



Ball ~~X~~ \$0.10?

THE NEW YORK TIMES BESTSELLER
THINKING,
FAST AND SLOW



DANIEL
KAHNEMAN

WINNER OF THE NOBEL PRIZE IN ECONOMICS

"[A masterpiece]... This is one of the greatest and most engaging collections of
insights into the human mind I have read." —WILLIAM SAATCHI, Financial Times

A bat and a ball cost \$1.10. The bat costs \$1.00 more than the ball. How much does the ball cost?

System 1 v. System 2

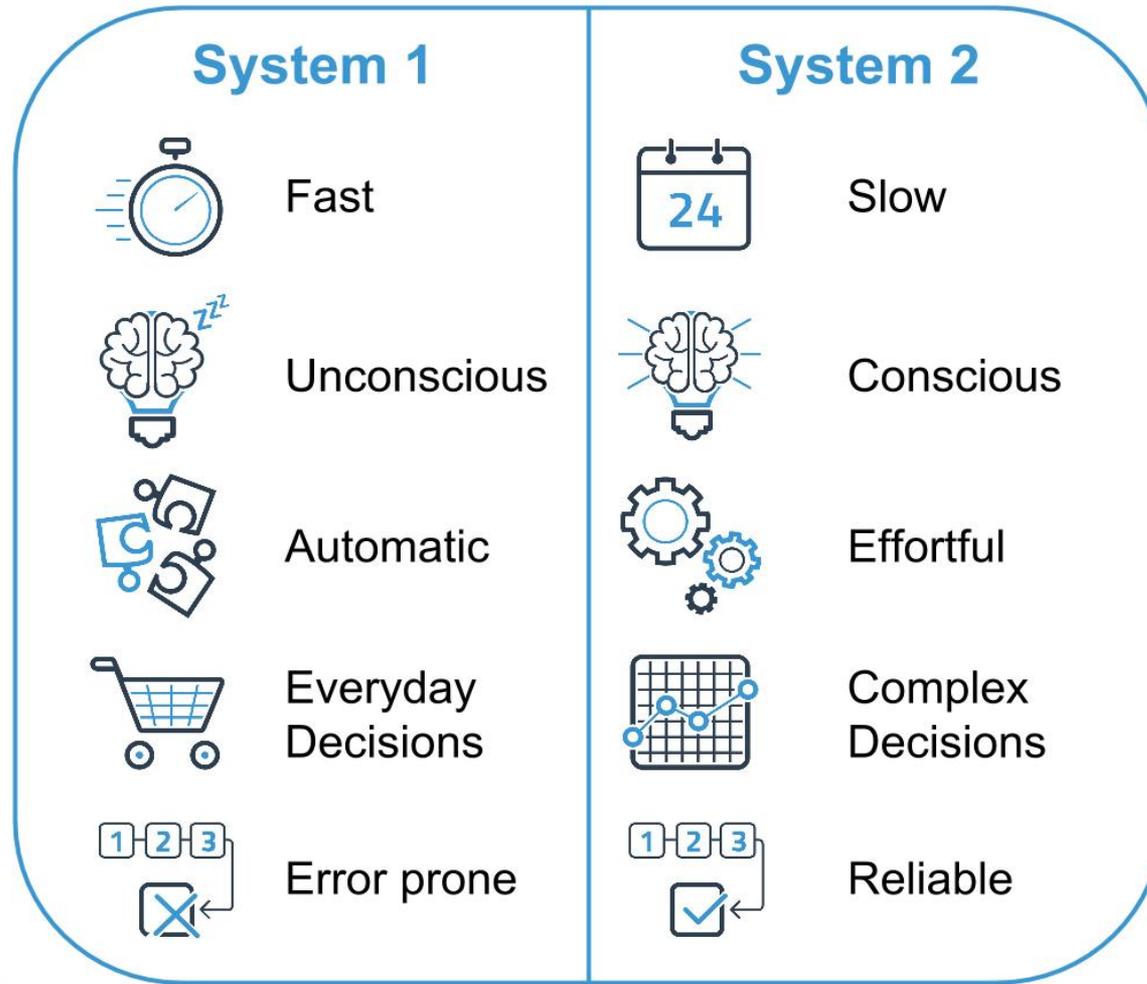
- System 1



- System 2

17×24

The two systems

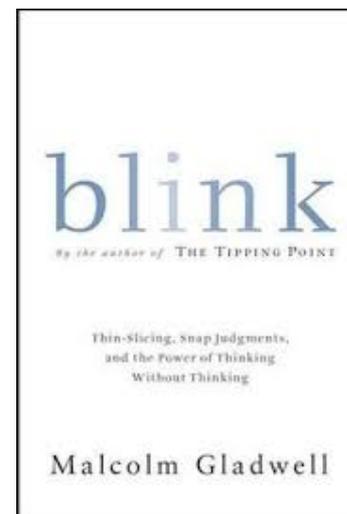


Conflict between the systems

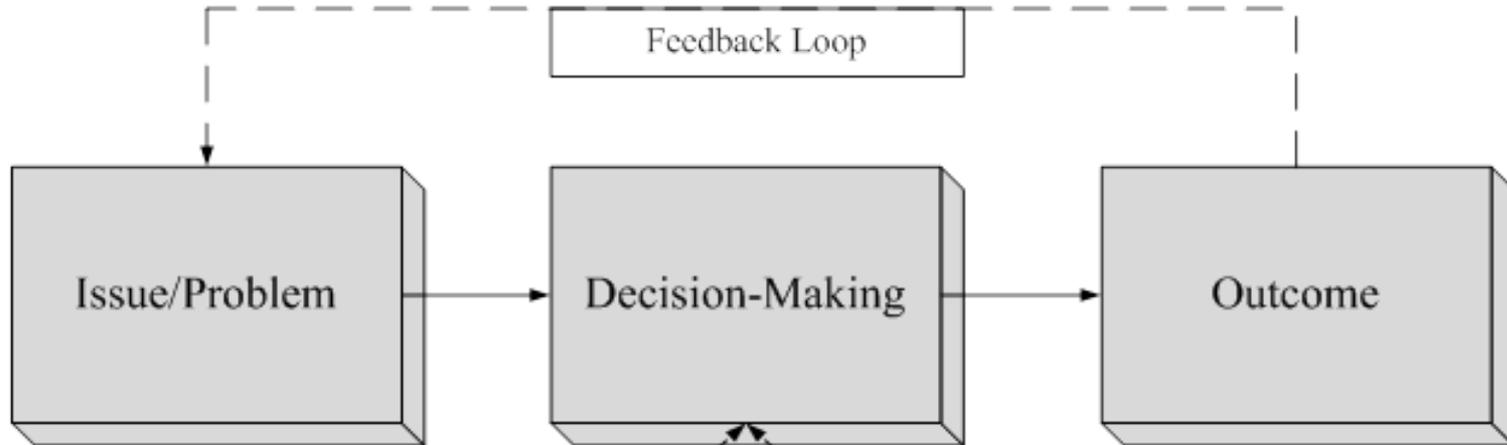
- Incorrectly selecting System 1
- Threats to System 2
 - Hunger?
 - Ego depletion
- Ways to engage System 2
 - Cognitive strain can be good!



Amadou Diallo



Threats to decision-making



Conflicts of Interest
(sometimes present)

Definition and implications:

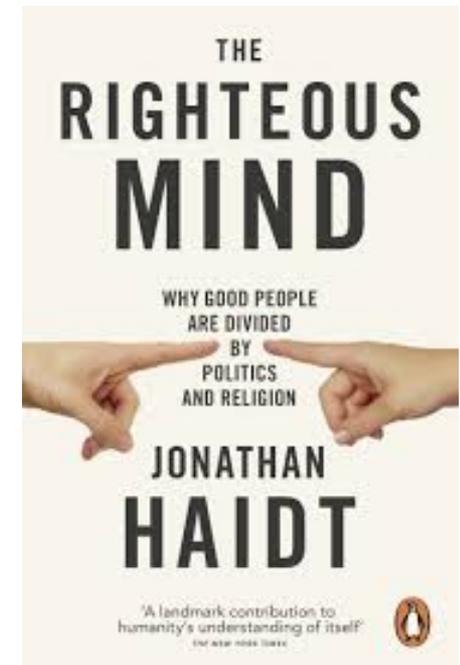
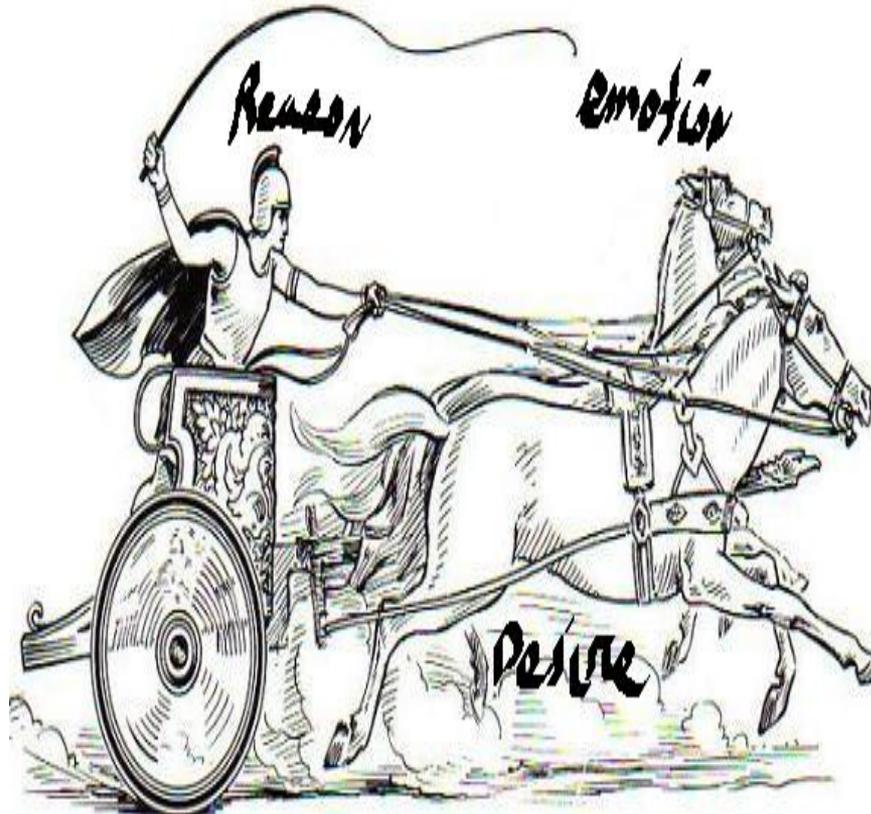
- Decision-maker's and organization's incentives diverge
- Ethical dilemmas result

Biases/Threats
(always present)

Examples:

- System 1 v. System 2
- Overconfidence
- Anchoring
- Escalation of Commitment
- Confirmation Trap

Connection to ethics



Plato → Kant → Kohlberg

An analogy



Specific unconscious biases

- Overconfidence
- Anchoring
- Escalation of commitment
- Confirmation bias
- Hindsight bias
- Availability heuristic
- Framing effects
- Endowment effect
- Conformity bias
- Exposure to money



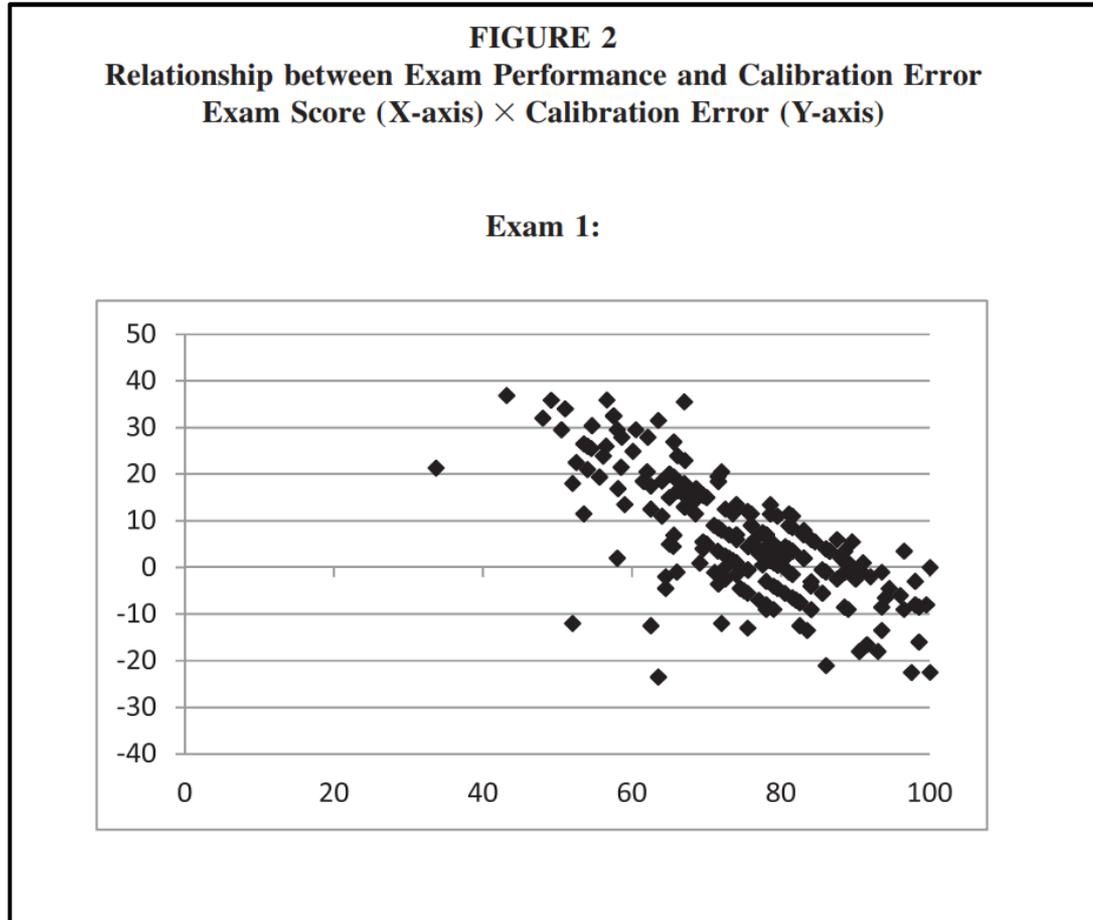
OVERCONFIDENCE

This is going to end in disaster, and you have no one to blame but yourself.

Overconfidence examples



- Also, the illusion of control



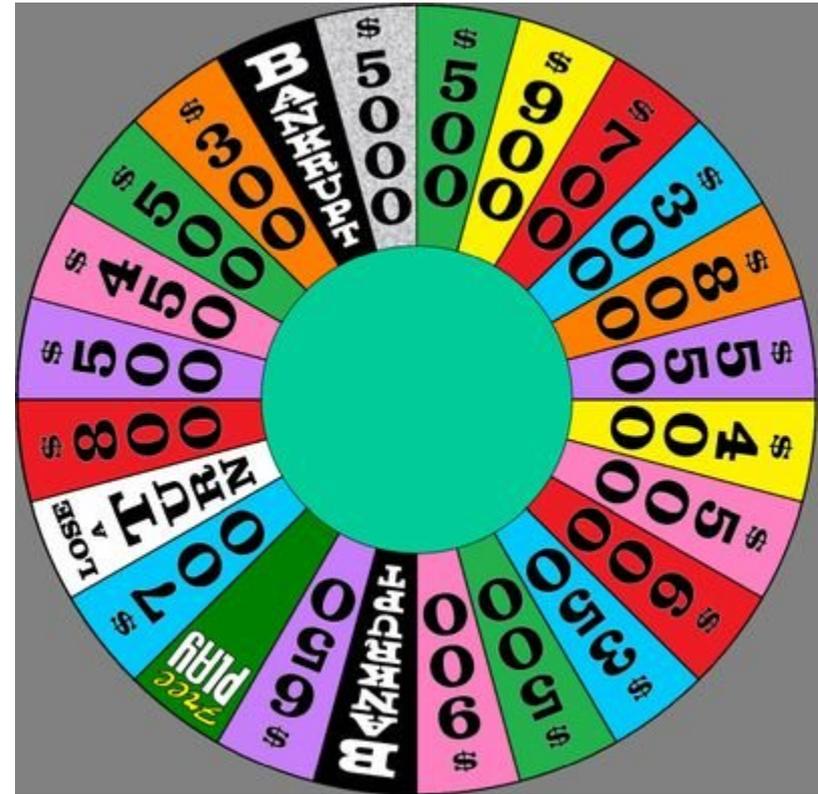
Ravenscroft, Waymire, and West (2012)

Overconfidence

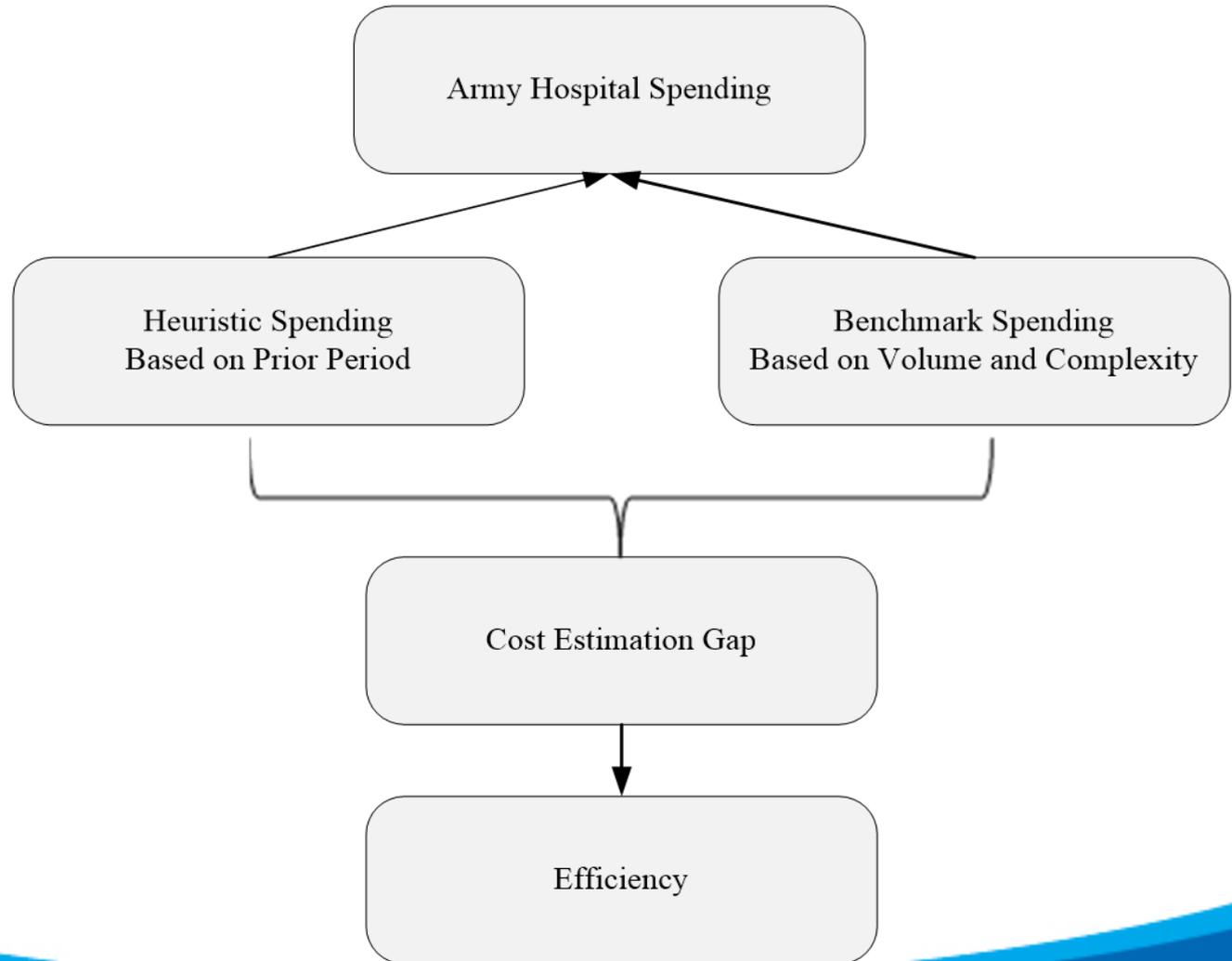
- But what about experts? (Ben-David et al. 2010) – overprecision
 - 10,000 forecasts by financial officers of thousands of firms
 - 33% of the time actual returns fell within 80% confidence intervals
- Overestimation
 - Belief that situation/event is better than it really is
- Planning fallacy
- Infrastructure projects (Flyvbjerg 2003)

Anchoring

- What is your best guess of the percentage of African nations in the UN?



Anchoring



Escalation of commitment

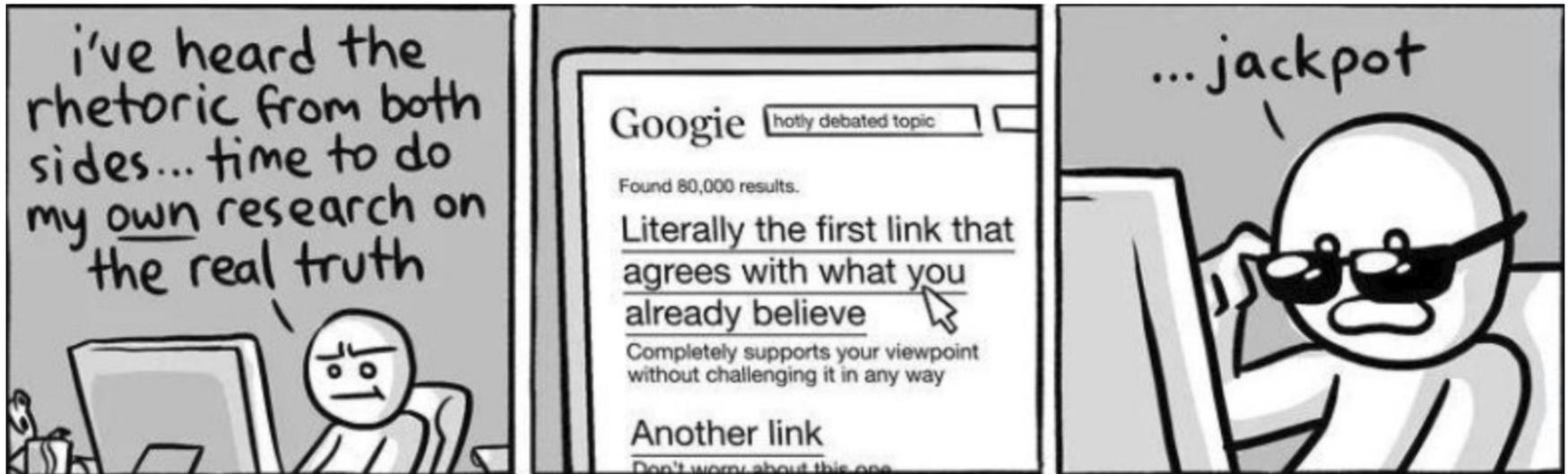


Escalation of commitment

	Told project was successful to date	Told project was unsuccessful to date
Responsible for decision	<i>No difference in resources allocated</i>	<i>Allocated MORE resources</i>
Not responsible for decision		<i>Allocated FEWER resources</i>

- Experiment by Staw (1976)

Confirmation bias



Confirmation bias – two questions

- If presented with information that supports my views, I ask . . .
- **Can I believe it?**
- If presented with information that diverges from my views, I ask . . .
- **Must I believe it?**

Confirmation bias

What about this
number pattern?

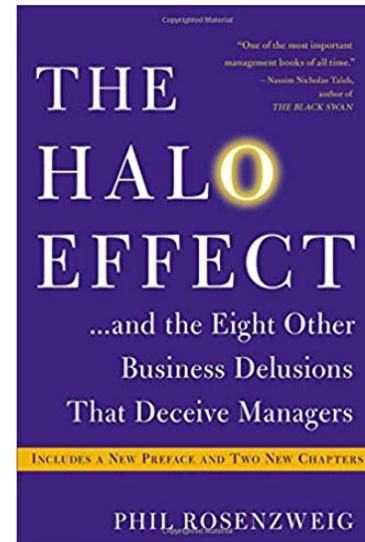
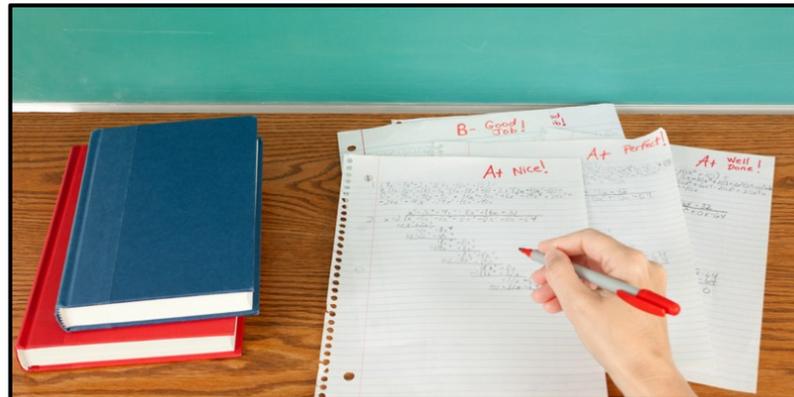
2, 4, 6

What do you think of Alan and Ben?

*Alan is intelligent, industrious, impulsive,
critical, stubborn and envious.*

*Ben is envious, stubborn, critical
impulsive, industrious, and intelligent.*

*“Understanding a statement
must begin with an attempt to
believe it: You must first know
what the idea would mean if it
were true. Only then can you
decide whether or not to
unbelieve it.” – Daniel Gilbert*



Hindsight bias



“What hindsight does is it blinds us to the uncertainty with which we live. That is, we always exaggerate how much certainty there is. Because after the fact, everything is explained. Everything is obvious. And the presence of hindsight in a way mitigates against the careful design of decision making under conditions of uncertainty.” – Daniel Kahneman

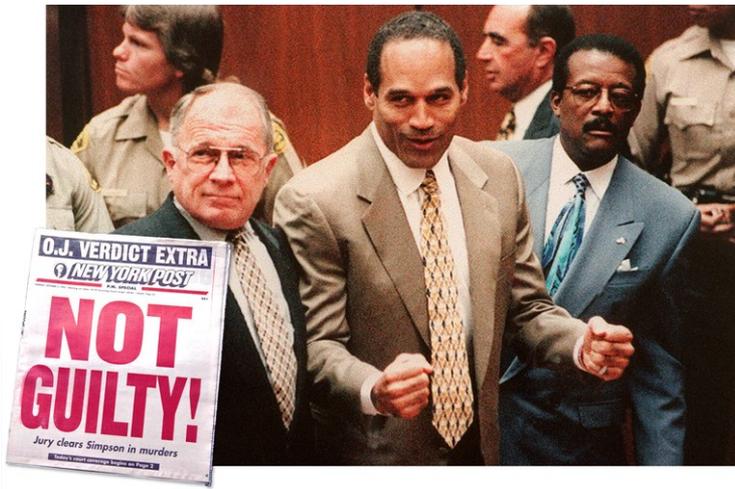
Hindsight bias – an experiment

What is the likelihood of success associated with 15 of Nixon's diplomatic initiatives?



Question posed before
AND
after Nixon's visit

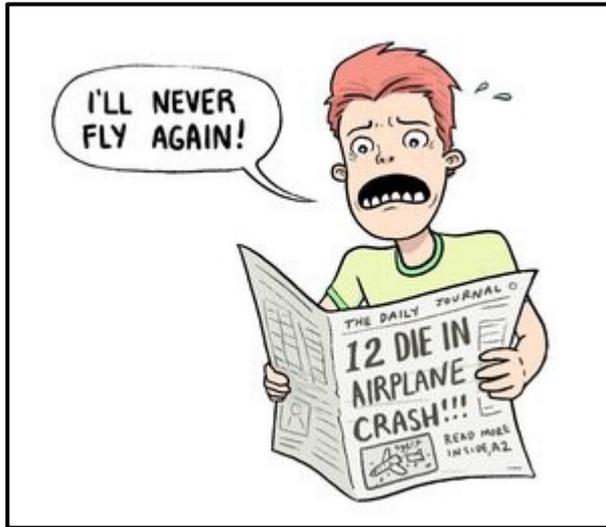
Other hindsight bias examples



Hindsight bias and consequences

- Quality of decision is evaluated on outcome – rather than the process
- Hinders healthy risk-taking
- Rewards lucky entrepreneurs

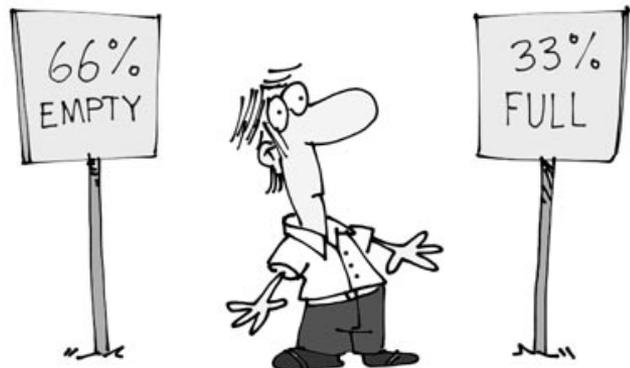
Availability heuristic



*Which is more likely –
death by tornado or asthma?
(posed by Paul Slovic)*

- Retrievability
- Ease with which events can be connected
- Salient/vivid events

Framing effects



Two scenarios:

- Woman buys two tickets to the theater. She arrives to discover the tickets are missing. Will she buy two more tickets?
- Woman goes to the theater intending to buy two tickets. She arrives to discover cash is missing. Will she use credit card to buy the tickets?

Framing effects

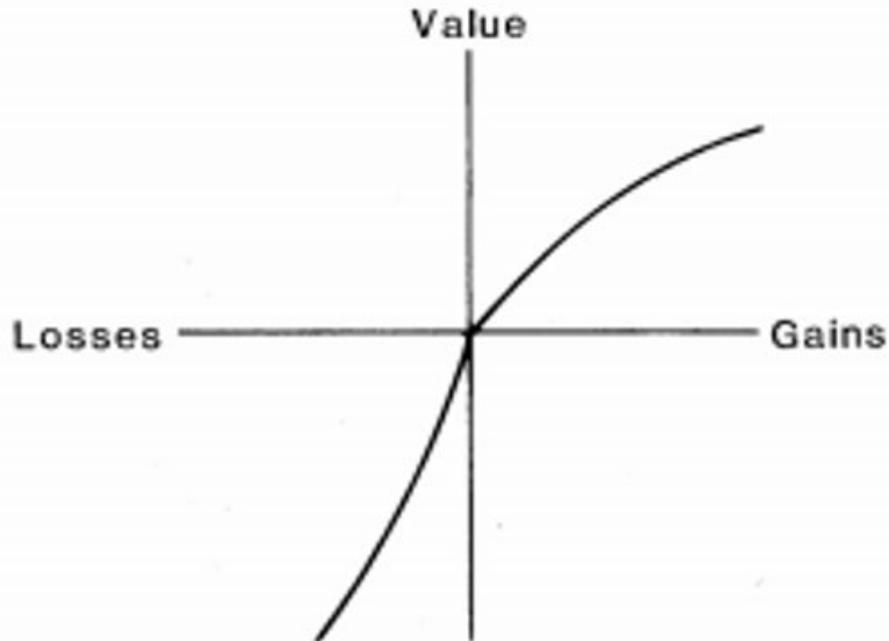
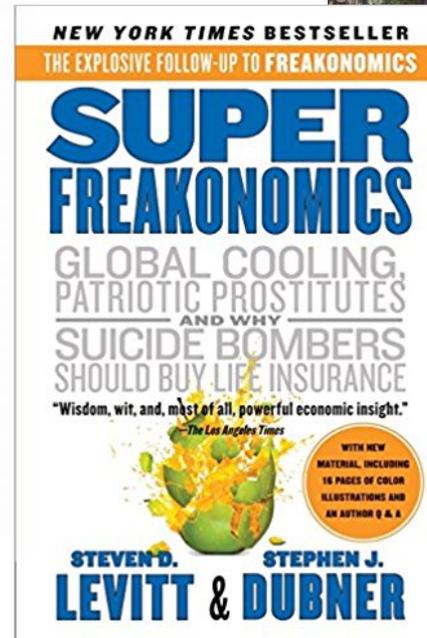


Fig. 1. A hypothetical value function.



Endowment effect



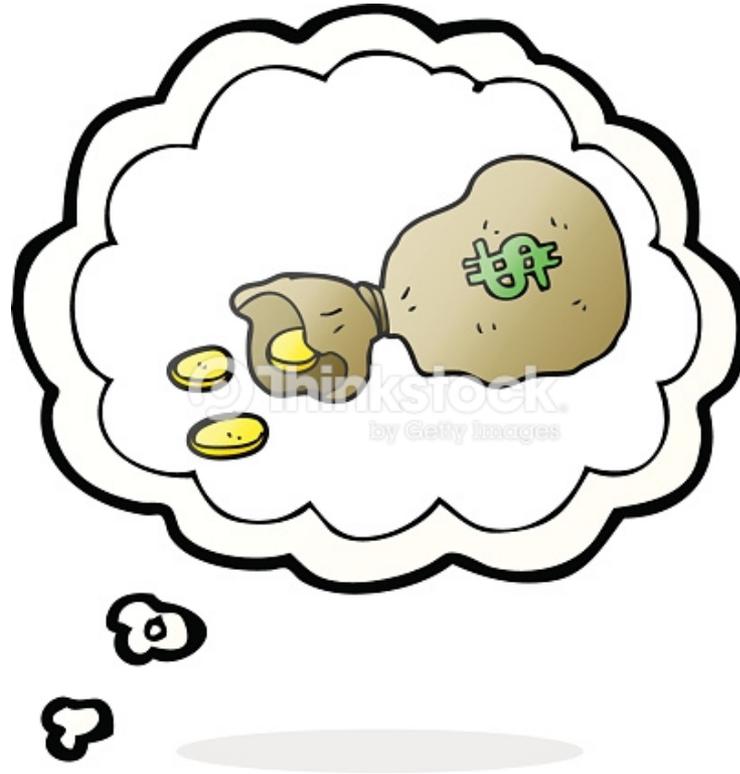
- What would you **SELL** the mug for?
- What would you **BUY** the mug for?

Conformity bias



Cheating is contagious. – Dan Ariely

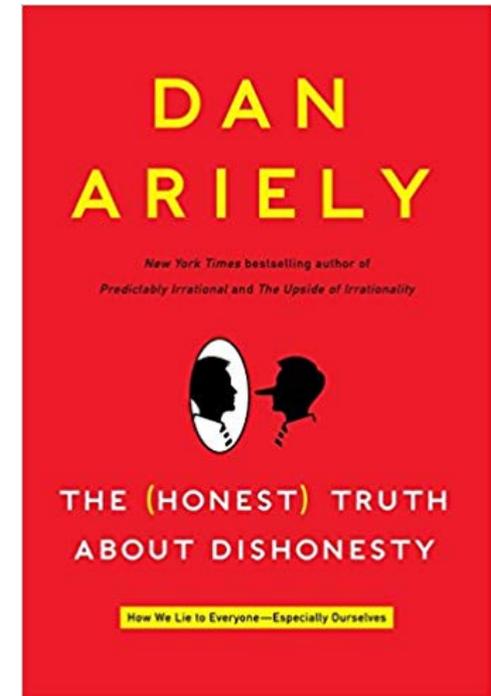
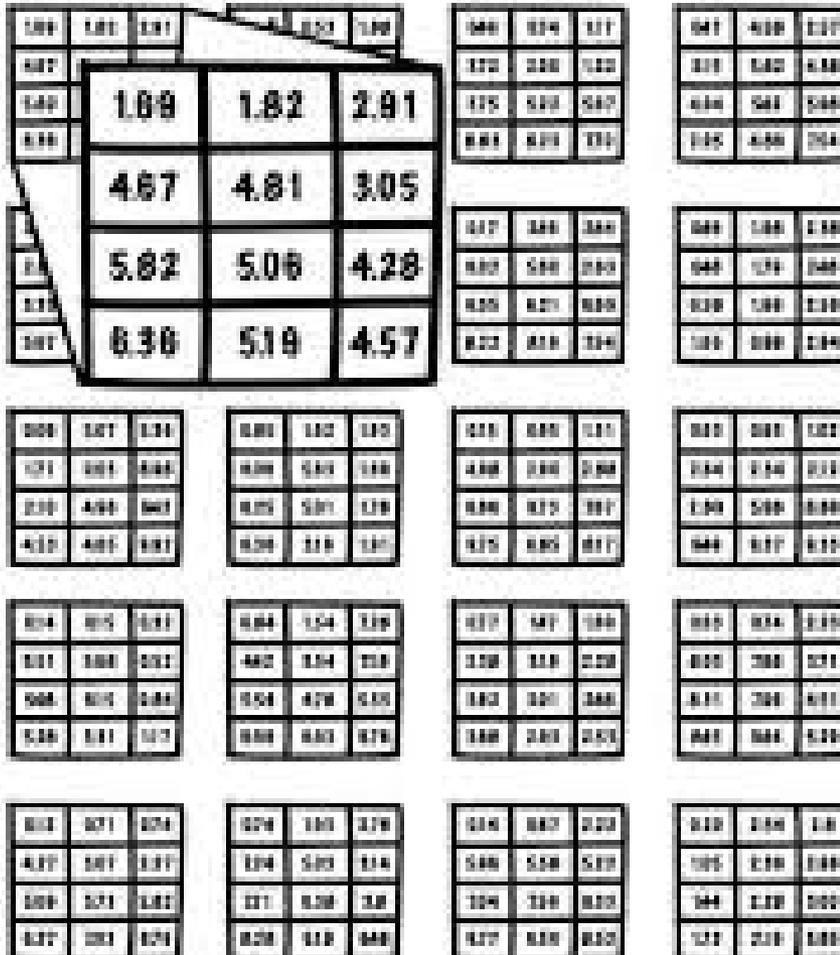
Exposure to money



- Or even the *thought* of money

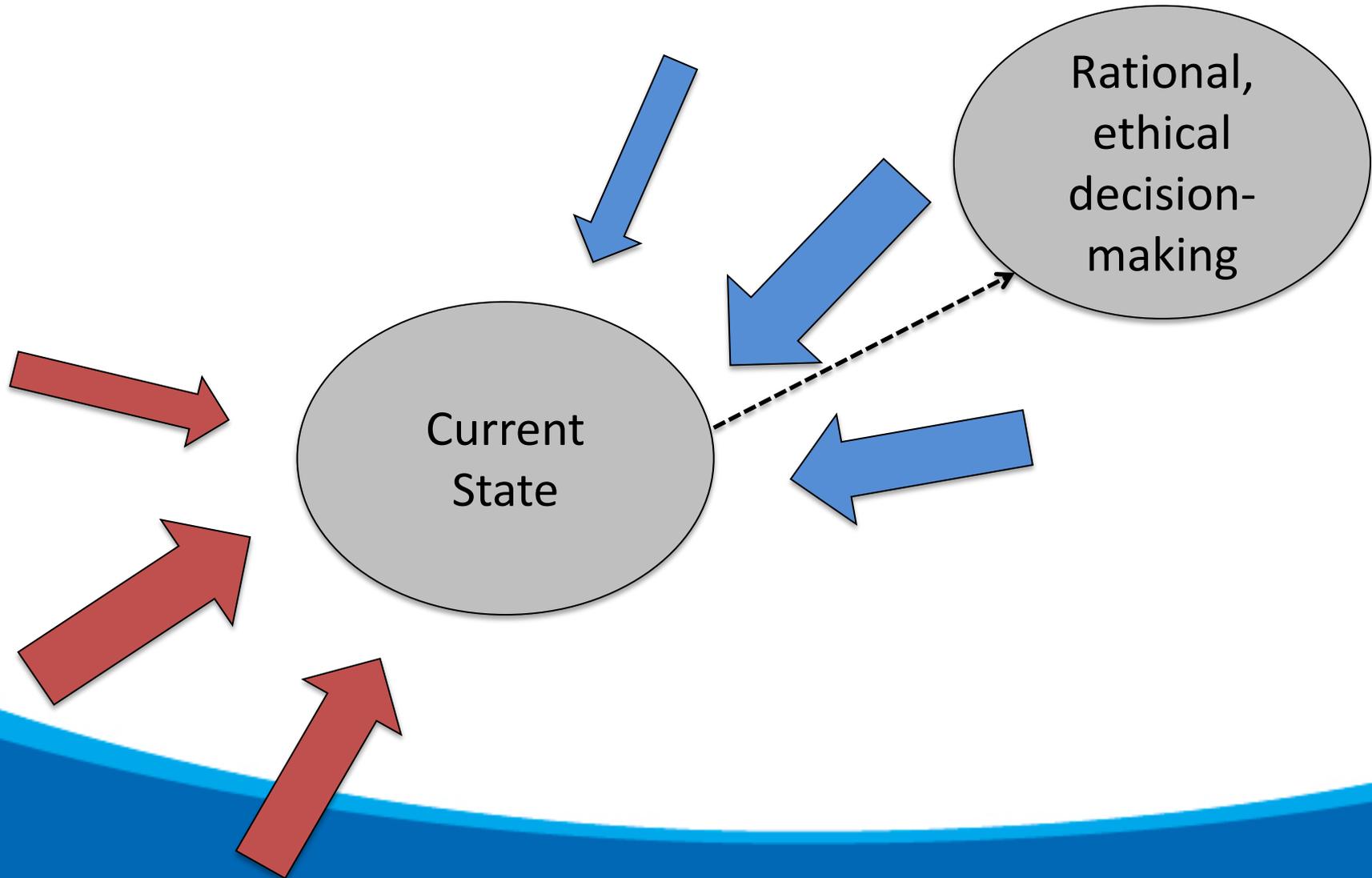
Do we cheat?

Figure 1: Matrix Task



Short answer: a little

The goal



Is there hope?

- Cognitive biases are pervasive
- Intuition leads, and reason is the press secretary
- Cheating is persistent
- Cheating is contagious
- Codes of conduct not particularly helpful
- Signing at the bottom does not help

Moving the needle . . .

- Not much we can do about biases and intuition
- But, the system can be built around the flaws:
 - *“Constant quality control is an alternative to the wholesale reviews of processes that organizations commonly undertake in the wake of disasters.”* – Daniel Kahneman

Moving the needle . . .

- Sign at the top
- Keep a journal
- Decision reviews by those not responsible
- Evaluate the process, not the outcomes
- Building a culture that promotes ethics, encourages healthy risk-taking, and treats failure as a learning opportunity

Selected references

