NC STATE | Poole College of Management
Enterprise Risk Management Initiative

ERM Tool
Assessing How Bias Might Impact an ERM Process

BRIEF DESCRIPTION OF TOOL

We all have hidden biases that can unknowingly guide our behavior and judgment. That is a normal human limitation. Recognizing the potential for bias and taking actions to try to counter those biases can be helpful in minimizing their impact. When we fail to consider where bias may be impacting our decision making, we run the risk that those biases may lead to blindspots that impact our judgments and decisions.

Bias can also impact the effectiveness of an organization's ERM process. This tool helps business leaders consider how bias may be affecting its risk identification, assessment, and monitoring processes.

HOW TO USE

This tool summarizes several well-documented forms of biases that can impact our judgment and decision making – see **Column A**.

Column B provides examples of how each bias might reveal itself in an organization's ERM process.

Column C provides space for ERM leaders or others to describe where they have observed this bias in different aspects of its ERM process – risk identification, risk assessment, risk response, risk monitoring, and risk communication.

Column D highlights steps an ERM leader might take to counter the potential for that bias.

This tool is based on these great resources:

1. Glover, Steven M. and Prawitt, Douglas F., "Enhancing Board Oversight: Avoiding Judgment Traps and Biases," COSO, 2012 (www.coso.org)

2. Kahneman, Daniel, *Thinking Fast and Slow*, 2011

3. Kahneman, Daniel; Lavallo, Dan and Sibony, Olivier, 2011, "Before You Make That Big Decision…", *Harvard Business Review* 89, no. 6:50-60

Assessing How Bias Might Impact an ERM Process

Column A: Type of Bias	Column B: Examples of How Bias Impacts ERM	Column C: Where are These Biases Present in Your Organization?	Column D: Tactics to Counter Bias Potential
Optimism Tendency: "Power of Positive Thinking" – want to embrace challenge, can-do spirit	Management's reporting about top risks to board is overly positive downplaying a few negative issues.		• Empower a "devil's advocate" • Ask for "best case," "moderate case", and "worst case" scenarios
Availability Tendency: Only consider information easily retrievable from memory as being more likely, relevant, and important	Management is presented with a pre-defined list of risks to identify new risks to the business – makes it hard to identify unknown risks.		• Challenge sources of data input – require additional sources of data or "second opinion"
Confirmation Tendency: Seek for and put more weight on information that is consistent with initial beliefs or preferences	Management relies on data to support estimates of likelihood of a risk occurring or impact should it occur, but rejects other data that disconfirms initial estimates.		• Seek out information that is disconfirming/conflicting • Make the opposite case - consider impact if actual result is 180 degrees opposite of expectation • Seek credible alternative views
Overconfidence Tendency: Overestimate own abilities to perform tasks or to make accurate diagnoses or other judgments and decisions	Management believes a particular technique to respond to a risk addresses risk completely, when it really affects only a portion of the root cause.		• Challenge extremely high or low estimates • Challenge underlying assumptions – assume opposite is true
Anchoring Tendency: Make assessments by starting from an initial numerical value and then adjust insufficiently away from that initial value in forming a final judgment	Forecasts & projections of future performance make it hard to think about potential risks – management is anchored to the positive forecast outlook.		• Make an independent judgment before reviewing data • Introduce alternative anchors of information – additional information than what is normally reviewed • Obtain data from a longer period of time
Rush-to-Solve Tendency: Immediately want to solve problem by making a quick judgment	Management wants to skip the risk identification process this year – thinking nothing has changed.		• Ask "what" and "why" questions • Try to steer people back to the specific steps of process – don't allow them to skip steps • "If you had to decide this one year from now, what would your answer be?"
Halo/Liking Tendency: Overall impression of a person affects ability to objectively evaluate information when making a judgment or decision	Senior executives discount viewpoints on risk prioritizations made my middle management		• Question "experts' or advisers' viewpoints • Stress test assumptions • Seek out quieter voices or diverse viewpoints