Mental Bugs in Companies

Implications of Cognitive Biases for Management Models: Biases in Individuals as a Source of Corporate Irrationality

More than 100 Mental Bugs make people predictably irrational, and cause systematic errors. A recent master thesis examines how these bugs can harm companies, and gives suggestions of how to fix the problems

# Behavioral Economics # Cognitive Bias # Bias Mitigation # IKEA-effect

Cognitive psychology and business

Just like a computer-program can have a software bug, we humans seem to have mental bugs that cause us to be predictably irrational. More than a hundred such mental bugs have been discovered in the field Cognitive Psychology, and they cause us to systematically make specific mistakes.

What happen when irrational, mental-bug-infested humans try to run sophisticated processes at their jobs? A recent master-thesis from Lund University¹, dealt with exactly that question, and presented close to 100 ideas of how our systematic irrationality, might cause systematic failures at companies.

In the richly diverse world of mental bugs, there are bugs that do everything from causing us to be overoptimistic planners, to fooling us that statements that just because a statement rhymes it is sensible. The mental bugs are so diverse that there is no easy way of summarizing all of the ideas of how they can hurt companies. Just a few examples of the ideas from the recent master thesis are that:

- The IKEA effect (which produces exaggerated beliefs in the quality of self-made things), might make employees incapable of making fair estimates of the quality of processes that they have developed.
- There is a mental bug that makes us feel like things that high-status people say, are more accurate than things said by low-status people. This might damage many forecasting method, by giving unfair attention to the ideas of certain persons.
- The band wagon effect, tricks people into believing in the group consensus. This might make it difficult to discover flaws in processes.

Ways of avoiding cognitive bias

Mental bugs can harm companies in extremely many ways, but what can you do about it? There is no fix-all-cure for mental bugs, but one can avoid the effects of some bugs in specific situations. The recent master thesis suggests several such fixes. For example to avoid IKEA-effect: Never let somebody be the judge of how good her own creations are.

The thesis also suggests two strategies that avoid many bugs in many contexts. Firstly there is Formalization, a strategy that builds on the philosophy that the smaller the responsibility you give to people’s intuition, the smaller the possibility of irrationality from mental bugs. In this strategy algorithms, and set routines are established wherever possible to create mental-bug-proof processes. This strategy has the drawback, that it might make work less fun for employees.

¹ The thesis was written by Karl Nordenstorm and its name is “Implications of Cognitive Biases for Management Models: Biases in Individuals as a Source of Corporate Irrationality”
The second strategy is to use outsiders to get really neutral opinions of things. These outsiders should have had as little exposure to the topic at hand as possible, while still knowing enough to be good judges. The principle behind this strategy is that the power of many mental bugs grows with experience. Hence if you have not had the time to get experience of a thing, you have not had the time to get biased.

**Summarizing the master thesis**

So to summarize the findings of the master thesis. It found more than fifty implications of mental bugs for companies, dozens of ways of that you might protect a company from mental bugs and two general purpose strategies for fighting mental bugs.

These findings can be used as inspiration for companies and academic research. Companies can try to use the suggested strategies. For academia the thesis is yet another knowledge contribution to an ongoing process of mapping out how mental bugs hurt business. This research already has produced effective methods of fighting mental bugs. With any amount of luck, it will continue to do so.