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AUSTRALIAN COMMUNITY CARE REVIEW Ageing Agenda



Risk assessments – are you taking mental shortcuts?

By **IonMy** on [August 22, 2018](#) in **Sponsored Content**



In the current aged and community sector environment, it is becoming more important to shine a spotlight on risk management.

This article provides you with a guide, which has been adapted from the article [Judgment Under Uncertainty: Heuristics and Biases](#) by Amos Tversky and Daniel Kahneman, to grasping the mental processes we use when assessing risk.

A successful risk management strategy is more than paying a consultant to deliver a risk report that ends up in the filing cabinet or purchasing complicated software that hides in the app folder. True risk management means understanding human behaviour.

Research shows that when assessing risks, our brains take mental shortcuts that can prevent us from making rational choices. Do you fall for these cognitive biases when assessing risk?

Failure to estimate

Bias	Explanation	Example
Confirmation bias	Focusing only on information that confirms existing preconceptions	We surveyed lots of relatives and most said there is no issue.
Belief bias	Basing an argument on the believability of the conclusion	I don't understand what you said, but the conclusion seems about right.
Clustering illusion	Overestimating the importance of small clusters of patterns	That happened last week as well, therefore there must be a problem.
Availability heuristic	Overestimating the likelihood of	I saw something similar to this

	events	on LinkedIn. We need to take it seriously.
Risk compensation	Taking bigger risks when there is a perception of increased safety; being more careful when perceived risk increases	Now that we have the new equipment, we can cut back on maintenance.
Gambler's fallacy	Believing that future probabilities are altered by past events	That happened three times last month, so it's pretty unlikely it will happen again.

Short-termism

Bias	Explanation	Example
Anchoring effect	Relying too much on initial information	First test seemed OK. Do we need to look any more?
Illusion of validity	Overestimating the likelihood of events	That worked fine at the other facility, it should work fine here.
Status quo bias	Preferring the current state of affairs over change	If it ain't broke, don't fix it.

Social

Bias	Explanation	Example
Courtesy bias	Giving an opinion or conclusion to avoid causing upset or offence	The last time we discussed this, the meeting lasted for hours. Let's move on.
Blind spot bias	Viewing oneself as less biased than others	Let's ignore Mary's views on this one. She's biased.
Bandwagon effect	Belief based on the number of people who share that belief	The whole department knows there's no problem here.
Stereotyping	Assuming a person's characteristics because they are in a group	Sue from nursing is worried, but frankly the nurses are always pessimistic.
Reactive devaluation	Devaluing an idea because it came from an opponent	Our competitors are only doing well because their prices are cheaper.

Financial

Bias	Explanation	Example

Endowment effect	Irrationally overvaluing something you own regardless of its objective market value	I know it will cost a fortune to fix, but it cost us \$25,000. We can't just throw it away.
Post-purchase rationalisation	Persuading yourself that a purchase was the right decision	We made a good call on that one.
Hyperbolic discounting	Preferring a smaller, sooner payoff over a larger, later reward	Let's just get the deal done ASAP.
Ostrich effect	Avoiding negative financial information by pretending it doesn't exist	Looks like we've run out of time to discuss this.

It is not just other people who are subject to these mental glitches (see "Blind Spot Bias"!). So what can you do about it?

1. Be aware of these mind tricks – consider pausing and taking a step back when assessing risks at your organisation. Take time to test the assessment against the biases.
2. Implement a digital risk system that objectively and rationally helps risk assessment by automatically applying logical rules.
3. Ensure that your risk processes are an integral part of your overall Governance structure, not just patched-on afterthoughts or software platforms that can be dismissed.

About the Author

Sonja Bernhardt OAM is a director and CEO of ThoughtWare, creators of the award-winning ionMy: Governance, Risk, Compliance software platform, used by residential aged and community care and not-for-profit organisations Australia-wide. In her spare time, Sonja is a commentator on emerging technologies on ABC Radio and cruise ships.

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