Risk-Informed Decision Making

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Kay Nakamura, Director of Client Solutions
Purpose of Risk Management

“Risk Management processes are not perfect, but they can provide a reasonable level of assurance that appropriate actions are being taken with respect to uncertainty.”

Source: World-Class Risk Management for Nonprofits

Risk Mitigation

“Risk mitigation is painful, not a natural act for humans to perform.”

- Gentry Lee, the chief systems engineer at Jet Propulsion Laboratory (JPL), a division of the U.S. National Aeronautics and Space Administration
Risk Culture

“...I think risk is **cool**. I think the risk function has the tools, techniques and tactics to allow an organization to extend itself and **really stretch** for new goals and heights.”

- *Rick Nason, Rethinking Risk Management: Critically Examining Old Ideas and New Concepts*
Confirmation Bias

- Confirming existing perceptions
- Recency effect
- Primary effect

False Consensus Bias

Belief that your own values and ideas are shared by the majority of people
Optimism Bias

Underestimating the significant consequences or the likelihood

Decision Quality Control

“The Big Idea: Before You Make That Big Decision...”

Harvard Business Review
Self-Reflection Questions

- Have the people making the decision fallen in love with the recommendation?
- Were there dissenting opinions and were they explored?


Questions to Ask People Making a Recommendation

- Have we considered all credible alternatives?
  - What other recommendations were considered?
  - When were they discarded?
  - Did we actively seek information that may disprove our main recommendation?

- Do you know where the statistics came from? Which numbers are facts, and which are estimates?

Questions For Evaluating a Proposal

- Are we being overly optimistic?
  - Has our nonprofit been highly successful recently?

- Are we being too cautious?

Door Decision Making or Type 1 and Type 2

- **Type 1 Decision**
  - Consequential and irreversible
  - Must be made methodically

- **Type 2 Decision**
  - Changeable
  - Two-way doors
  - Can be made quickly by high judgement individuals or nimble groups

*Source: Business Insider Article - Amazon's Success in Unparalleled – and 'Type 2 Decision' Are a Major Reason Why*

It’s Easy to Miscategorize

Do that and your risk committee will become paralyzed – and make no decision at all.
### Type 1 and Type 2 – Key Points

<table>
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<tr>
<th>1 No One Size Fits All</th>
<th>2 You May have &lt; 70% of Ideal</th>
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<tbody>
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<td>- Many decisions are a two-way doors</td>
<td>- It is possible to decide with less than ideal information</td>
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<td>- Be aware of those “easy” decisions and don’t try to make them more complicated than need be</td>
<td>- If you wait for idea, you may have waited too long</td>
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Source: Ex-Amazon Manager: Jeff Bezos is ‘Obsessed’ with This Decision-making Style – “It’s His Key to Success”

### Type 1 and Type 2 – Key Points

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<th>3 “Disagree and Commit”</th>
<th>4 Misalignment issues</th>
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<td>- Without consensus it is possible to move forward by saying “Look I know we disagree on this, but will you gamble with me on it?”</td>
<td>- Try to look for objectives and fundamental differences and escalate them</td>
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<td>- Without proper attention, the default dispute mechanism for this scenario is exhaustion</td>
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DECIDE – Decision Model

DECIDE Model

1. Define the problem
2. Establish the criteria
3. Consider the alternatives
4. Identify the best alternative
5. Develop and implement a plan of action
6. Evaluate and monitor
Aviation Decision Making Process (example)

1. Define and understand the problem
2. Gather all relevant information
3. Identify and evaluate the options
4. Select the preferred option
5. Act and communicate the decision
6. Follow-up as needed

Source: World-Class Risk Management for Nonprofits
Understanding the Context

- Why are we making this decision? What are we trying to achieve?
- Are we sure we have all the information we need? Are we confident that the information is reliable, complete, accurate, timely and up-to-date?
- If the decision is to address a problem, what are the potential (and perhaps actual) effects of the situation and how likely are they to occur?
- Who and what may be affected by the decision?

Which Decision-Making Process Should You Apply?

- How much uncertainty are you willing to accept?
- Where are risk decisions made in your organization?
- What is your risk tolerance or appetite?
- How integrated or “baked in” is risk in your decision-making process?

“Ex-Amazon Manager: Jeff Bezos is 'Obsessed' with This Decision-making Style – 'It's His Key to Success','https://cnbc.com/2019/11/14/how-billionaire-jeff-bezos-makes-fast-smart-decisions-under-pressure-says-ex-amazon-manager.html


World-Class Risk Management for Nonprofits, Norman Marks and Melanie Lockwood Herman

Thank you!

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