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Applying a Risk-Aware Frame to Key Decisions

Melanie Lockwood Herman

703.777.3504 | Melanie@nonprofitrisk.org

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About NRMCMC

The Nonprofit Risk Management Center
inspires effective risk management and Risk Champions.

We help leaders identify and manage risks that threaten their missions and operations, and leverage opportunities to take bold, *mission-advancing* risks.

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Overview



What is Risk? What is Risk Management?



Barriers to Risk-Aware Decision Making



Using a Risk Lens or Frame



Closing Thoughts

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What is Risk? What is Risk Management?

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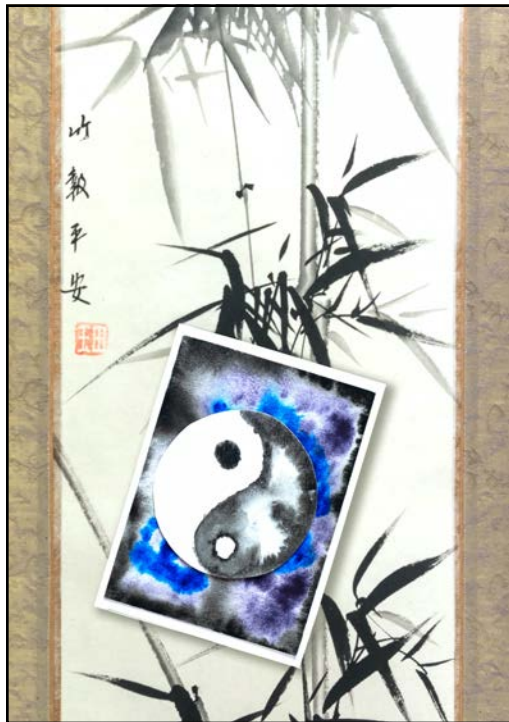
What is Risk?

- A future action, decision or event with the potential to positively or negatively impact an organization's ability to achieve one or more key strategic objectives
 - future (versus something happening now)
 - potential significant impact (e.g., mild aftershock vs. earthquake that destroys your uninsured building)

What is Risk Management?

- A discipline for dealing with uncertainty

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Yin & Yang of Risk Management

- We must **prepare** for an uncertain future and **respond** to events and circumstances that are different from what we expect

Yin and Yang: Chinese philosophy which says that all things exist as inseparable and contradictory opposites

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Barriers to Risk-Aware Decision Making

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The
ultimate
goal

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Four Barriers

1. Uncertainty reigns
2. Perceptions \neq reality
3. The illusion of control
4. Cognitive bias

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Barrier #1: Uncertainty reigns

- We're living in the **Information Age**
"a time in which information has become a commodity that is quickly and widely disseminated and easily available " – Merriam Webster
- **How much information?**
"Over 2.5 quintillion bytes of **data** are **created every** single **day**, and it's only going to grow from there. By 2020, it's estimated that 1.7MB of **data** will be **created every** second for **every** person on earth." socialmediatoday.com
- Despite the availability of unimaginable quantities of information, available at lightening speed. . .

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**“It is difficult to
make predictions,
especially about
the future.”**

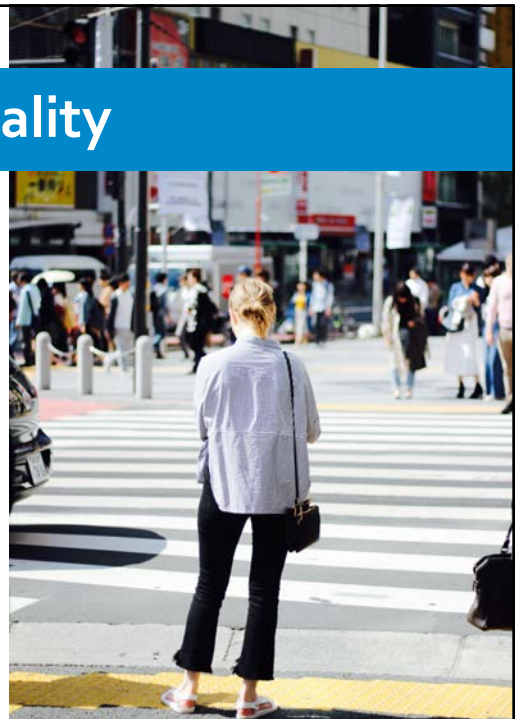
– Danish proverb



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Barrier #2: Perceptions \neq reality

- **Crosswalks:** safer than jaywalking?
 - San Diego study from the 1970s: “...more pedestrian accidents occur in marked crosswalks than in unmarked crosswalks by a ratio of approximately 6:1.”
 - Why?
 - False sense of security
 - Distractions...



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Has the world
become MORE
dangerous?

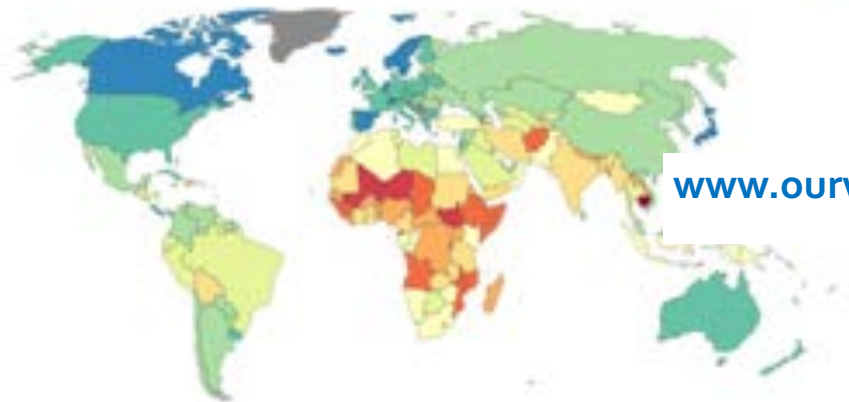


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Life expectancy, 1980

Shows a period life expectancy at birth, the average number of years a newborn would live if the patterns of mortality in the given year were to stay the same throughout its life.

Our World
in Data



www.ourworldindata.org

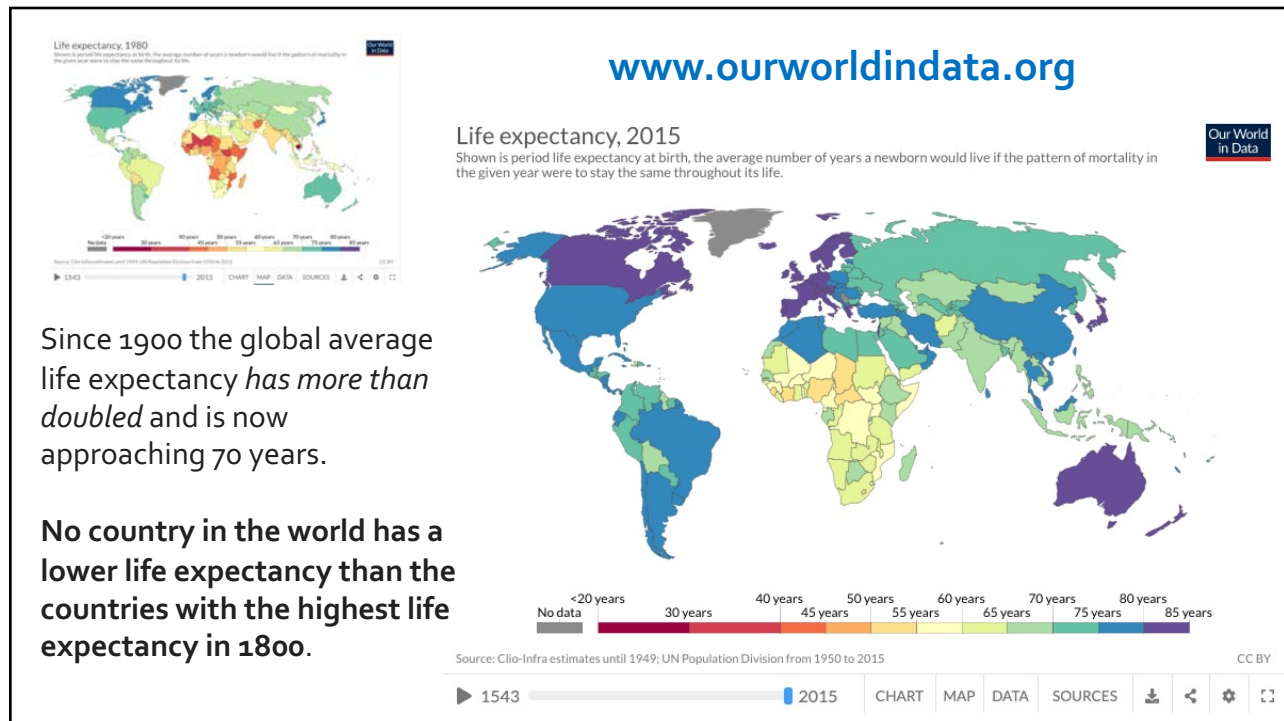


Source: CIA factbook estimates until 1949; UN Population Division from 1950 to 2015

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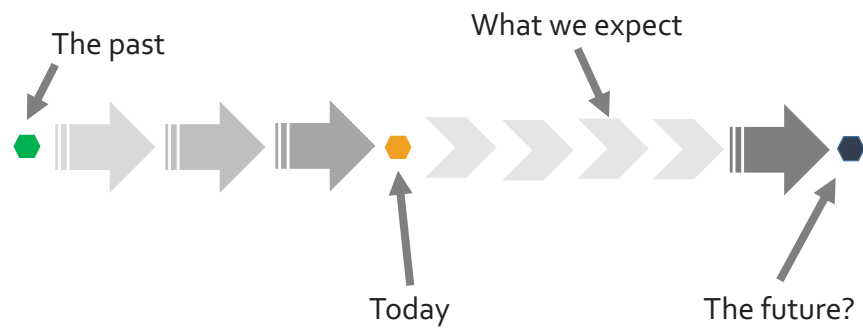
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Barrier #3: The illusion of control

- We believe we're in control, when we're not
- We're confident when we believe we're in control, and fearful when we lack control
 - Nervous passenger syndrome
 - 20 million Americans suffer from Aviophobia (NIMH)

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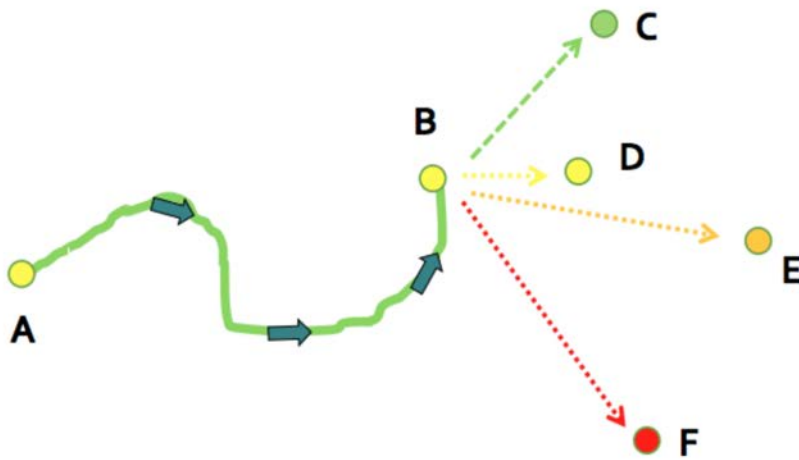
The Trap of Extrapolation



SOURCE: *The Prediction Trap*, by Randy Park

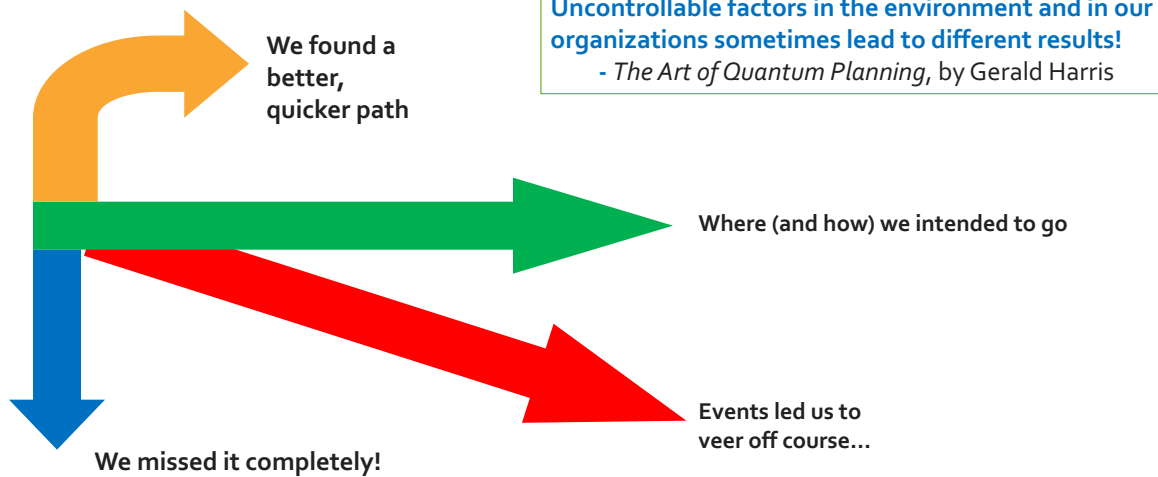
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"Alternate Futures"



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What we expect... vs. what MIGHT happen

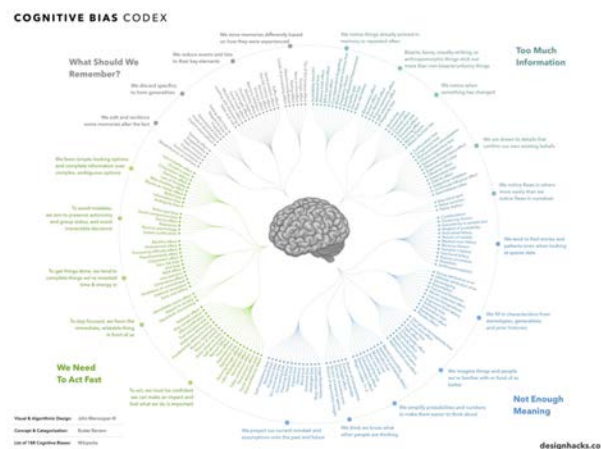


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Barrier #4 - Cognitive Biases

... a mistake in reasoning, evaluating or remembering... due to holding onto one's preferences and beliefs despite contrary information.

In some cases, cognitive biases make decision-making more efficient!



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Three Favorites

- **Confirmation Bias:** we look for evidence that supports our existing beliefs rather than alternative explanations.
- **Focusing Effect:** a cognitive bias that causes us to attribute too much weight to events of the past and translate them into future expectations
- **Anchoring Bias:** the tendency to rely too heavily on one piece of information—or the initial piece of information or solution available—when making decisions

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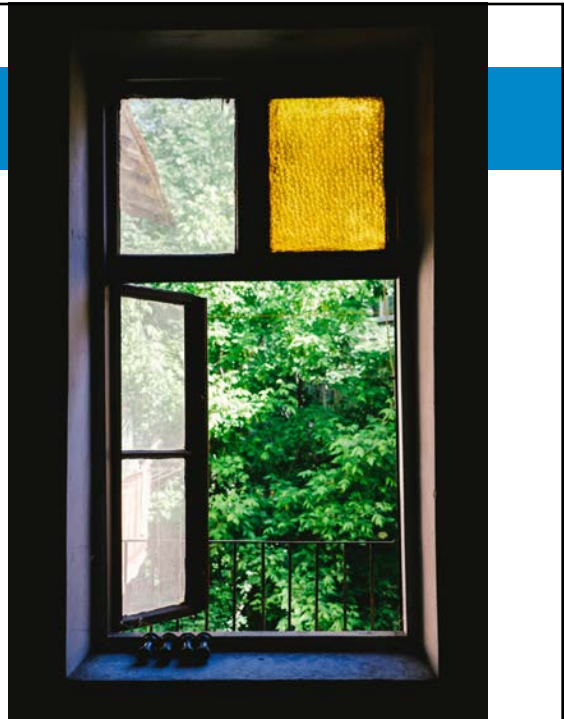


Using a Risk Lens or Frame

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Lenses and Frames

- Be humble:
 - acknowledge what you don't know; recognize that your view of an issue (risk) may be biased or obstructed
- Be resolute:
 - resolve to see risks from different angles and perspectives; multiple frames are better than one!



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Ask lots of questions!



"People often hesitate to ask questions because they would rather not gain information that would make them confront a need for change."

– *Questions Are the Answer*,
by Hal Gregersen

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Confidence-building questions

- What's the worst that could happen?
- What's the best possible outcome?
- Have we identified at least one viable contingency? Are we ready to pivot?




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More questions!

- Have we done this before? What happened?
- What aspects of this decision are familiar? unfamiliar?
- What assumptions have we made?
- Who would have a very different perspective on this decision?
- Do I have authority to make this decision?

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Use a “Time Machine” to identify gaps



Time Machine.

Step 1
Identify the risk event.

Step 2
Describe how it turned out (imagine/envision how the risk played out in as much detail as possible).

Step 3
Identify assets, resources, skills, and/or knowledge that were used or in play or helpful as the team managed through the risk event. Where any valuable? Underline them.

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Find the answer here | nonprofitrisk.org

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Step 4
What decisions had to be made during the event? What were the most difficult?

Time Machine.

Step 5a
What wasn't in place or resources weren't available?

Step 5b
What must we know, uncover, develop, discover, or understand to develop those resources?

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Step 5c

What is the estimated cost of doing that work?

Step 5d


What timeframe is reasonable?

Step 5e

How might the resource be helpful in other areas beyond this risk?


Step 6

What would a team with unlimited resources do to address this risk? How or why might that investment not be worth it? ("Why might the juice not be worth the squeeze?")



Time Machine.

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Step 7


What changes in practice, policies, training, preparation, contingency planning, etc. should we begin today so that if/when the risk materializes, we'll be in the strongest possible position?

Step 8

If we were fully prepared to face this risk or able to avoid it, what would the outcome look like?



Time Machine.



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Closing Thoughts

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Build Resilience!

the capacity of an organization
"...to prepare for disruptions, to
recover from shocks and stresses,
and to adapt and grow from a
disruptive experience."

– Judith Rodin

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“Belt and Suspenders”

- *Practice redundancy*: cross training, succession planning, written plans and procedures
- *Strive for stretchability*: stretch assignments, anticipate multiple futures/possibilities



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Uncertainty = the chance to learn and grow



- The big trick is to be relaxed about uncertainty and, if possible, to even enjoy it.... **It's difficult to have an epiphany if all you want revealed is what you already know.** – John Hunt

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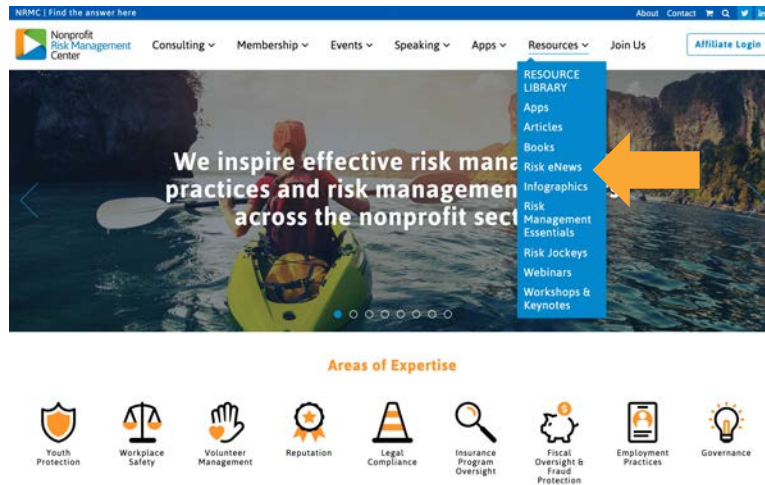


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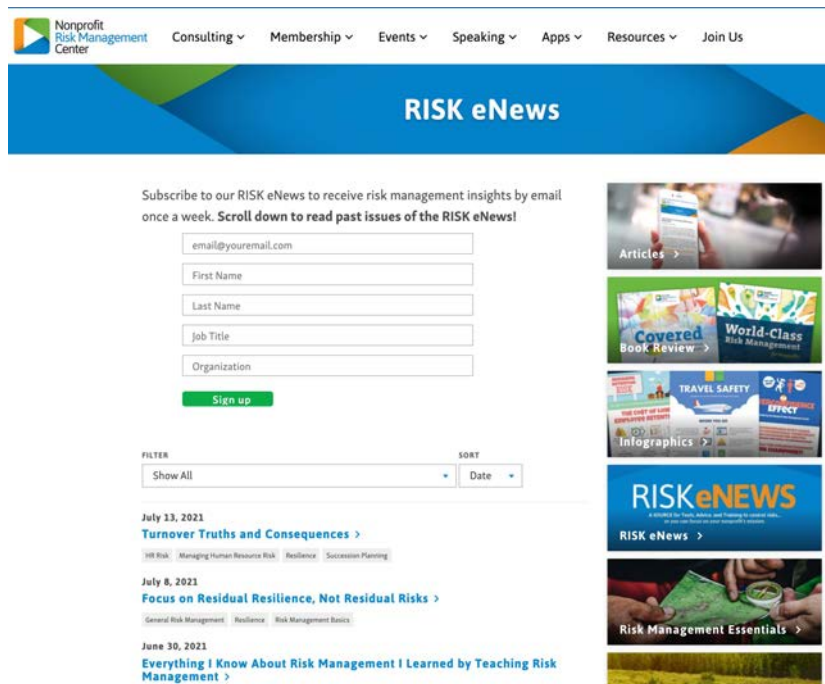


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Thank you!

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