

# Making decisions in situations of uncertainty



Risk management exists to better inform decisions that create and protect value. This idea is at the heart of the Victorian Government Risk Management Framework (VGRMF), which gives structure to decision-making and drives accountability for decisions made.

The more time spent reflecting on how we make our business decisions, the better our outcomes will be.

Our decisions are about a future course of action—hence the uncertainty. Good risk management is about dedicating time to make proper decisions and planning for this uncertainty.

During the planning stages, we can:

- slow down our decision-making to make sure it's properly informed, whether that's with data, analysis, desk research and evaluation, or consultation with other decision-makers and stakeholders
- prepare for situations that require immediate or limited consultation for decision-making
- take time to reflect and review the outcomes and progress of our decisions.

## Decision-making for different outcomes

Some decisions ensure your organisation is resilient, capable, innovative and accountable for prior decisions and actions.

Boards and executives are responsible for these decisions and make them with the support of risk practitioners and other staff who facilitate, advise and inform.

Other decisions are about carrying out the work of your organisation—achieving its objectives, managing projects and acting in the best interests of the people, places and systems in your care.

The quality of these decisions depends on those made by the board and executive, so it's important that boards and the executive team implement frameworks and processes which will allow employees to do their work and model a culture of good decision-making. To find out more about gathering the right information for good risk management, please refer to our Building your risk management framework guide.

Changes within the organisation or the environment will prompt decisions that might affect:

- laws and regulations
- leadership
- the physical environment
- technology
- economy and finances
- supply chains
- societal norms and attitudes.

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## Different kinds of uncertainty require different ways of making decisions

Risk management is much more than a process of identifying and reporting threats. It's the conscious act of gathering information to resolve and reduce uncertainty or likelihood of that risk occurring.

Risk assessments can form richer and more informative insights if you know the kind of decisions you're making and the extent of uncertainty.

We've produced a decision-making and uncertainty map that explores the practice of slowing down decision-making and sets out:

- different types of events
- the uncertainty they present to decision-makers
- how the uncertainty can be resolved with various procedures or practices.

### Clear event

#### **E.g. staff incorrectly wear personal protective equipment when providing care to patients**

##### How this could be presented

- We understand causes, conditions and other factors.
- There's little ambiguity when diagnosing a problem.
- You, or someone, can take it apart and see how it works.
- It's clear who's best to resolve it.

##### Approaches to resolve uncertainty

- Use a checklist or other tools to take you through a diagnostic procedure
- Engage technical or other skilled support
- Seek guidance from someone who's experienced with resolving the event

### Complicated event

#### **E.g. a pandemic lock-down leads to an interruption of supply of face masks**

##### How this could be presented

- The causes, conditions and other factors that lead to events are understood by those with expertise.
- You can take it apart and see how it works but it takes more time, knowledge and skill.
- Unravelling why a given event is happening, or could happen, isn't easy but it can be done to the extent that it's worthwhile to investigate.
- Interpreting data, research and situations requires interpretive skill and subject matter expertise.

##### Approaches to resolve uncertainty

- Spend time properly understanding and choosing the right problem to solve
- Engage expertise and consult with stakeholders to understand drivers and barriers
- Use analytical tools such as system and influence mapping

- Carry out desktop research or undertake new observational research to find out more about this type of problem
- Look for opportunities to co-design and collaborate on implementation

## Complex event

**E.g. we make systemic errors and our organisational culture persistently gets in the way of finding out why**

### How this could be presented

- Events emerge from complex systems.
- The causes, conditions and other factors don't determine what happens.
- The causes, conditions and other factors that lead to events are understood to some extent by those with expertise.
- These events are hard to predict, sensitive to small, hard-to-identify changes, and better understood in hindsight.
- The past isn't a good guide to the present.
- Interpreting data, research and situations requires interpretive skill.
- It's difficult to assign responsibility.
- It's difficult to know what's the appropriate decision.
- For someone without knowledge or skill, these situations can seem chaotic.

### Approaches to resolve uncertainty

- Set a goal of gaining insight and understanding, not problem solving
- Conduct experiments to test hypotheses and interventions
- Trial interventions, evaluate and adapt
- Prioritise knowledge sharing and collaboration to develop a deeper understanding and a wider perspective
- Set up systems for data collection and other information gathering so that you can evaluate hypotheses and interventions in real time
- Train people to be resilient and capable when uncertainty cannot be resolved
- Invest in preparing places and systems for plausible scenarios and shocks

## Chaotic event

**E.g. a terrorist event takes place**

### How this could be presented

- Events emerge suddenly and are short-lived.
- Harm to people, places and the environment is almost certain.
- Inaction will magnify this harm.
- There's no time to gain knowledge to inform your response.
- These events maybe predictable, but their timing and scale are almost impossible to anticipate.

### Approaches to resolve uncertainty

- Your goal is immediate harm reduction, not finding the right answers
- You'll react with a command and control response
- Make decisions quickly and be prepared to adapt
- Prioritise real-time communications to sense changes in conditions
- The role of risk management is enabling the resources and resilience needed when chaos arrives

Note that some events will have clear, complicated and complex aspects to them. Over time you can move from decisions that are reactive and *chaotic* (e.g. responding to the first major instance of thunderstorm asthma in Victoria 2016) to more ordered and *complicated* (e.g. evaluating the State's current Thunderstorm Asthma Program).

## What this means for risk management activities

We've explored that decisions will always involve degrees of uncertainty, and often, complexity or chaos. On the other hand, we know risk management activities are normally carried out, assuming the world is ordered and are easily understood.

It's critical that your risk management activities inform decision-making and accounts for a range of complexities. When Identifying, analysing and evaluating risks, carefully identify the decisions that are relevant and the degree of complexity that exists. Doing this points to the strategy (choice of research, response and monitoring) which best addresses the risk.

It's almost impossible to predict chaos, so risk management is a tool that helps prepare you for chaos when it happens, not try and guess when it'll occur. This is the concept of resilience.

You can also refer to your organisation's risk appetite statement when you make decisions. The risk appetite statement helps you address uncertainty by setting boundaries and is a way to make your decisions defensible.

## Invest in and allocate time for decisions

Unconscious thinking, emotions and our bias affect our ability to make rational decisions.

This means that making informed and sound decisions requires thinking slowly, deliberately, and logically. Diversity of thought and experience will also allow you to think holistically. As you become aware of personal behaviours and psychological patterns behind decision making, you'll adopt practices that lead to better quality information and decisions.

Our guides and tools can support you through making decisions in uncertainty.

### Tools

- Building your risk management framework
- Identifying, analysing and evaluating risks

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### Further reading (external suggestions)

- The Cynefin Framework
- Deciding: A guide to even better decision making by Roger Estall & Grant Purdy (2020)
- Thinking, Fast and Slow - 01 Edition by Daniel Kahneman (2011)

