The Decision Making Process
FSA vs. MBA

Tim Cardinal
FSA, MAAA, CERA, MBA

PolySystems, Inc.
5 stages of intelligence in decision making*

1. Acquisition
2. Delivery
3. Acceptance
4. Interpretation
5. Implementation


*Contingencies, Mar/Apr 2011*

A framework for developing and using intelligence that is a model for today’s corporate risk managers
Decision Making Process

2012 Team Sheet Description
(Updated December 14, 2011)

KEY
1. Won-lost record
2. Average RPI of the teams beaten
3. Won-lost record (all games)
4. Ranking of winning percentage (all games)
5. Ranking of strength of schedule (all games)
6. Ranking of opponents strength of schedule (all games)
7. Team RPI (all games)
8. Average RPI of the teams lost to (all games)
9. Won-lost record (NC games)
10. Ranking of winning percentage (NC games)
11. Ranking of strength of schedule (NC games)
12. Ranking of opponents strength of schedule (NC games)
13. Team RPI (NC games)
14. Date of game (*12/09 = Dec. 10)
15. Color key

Results against opponents ranked 1-50
Results against opponents ranked 51-100
Results against opponents ranked 101-200
Results against opponents 201-above

Although not included in the calculation, this area indicates all results against non-D1 opponents.
Why - FSA vs. MBA

Are YOU an Actuary?
Do you solve actuarial problems or business problems?
Numbers? Communication? Business acumen?

IF Only

Enterprise Risk Management
NAIC’s Solvency Modernization Initiative & EU’s Solvency II
Require embedding ERM into culture, decision making and business activities
# Why - Competitive Advantages

<table>
<thead>
<tr>
<th>Valuable?</th>
<th>Rare?</th>
<th>Difficult to Imitate?</th>
<th>Competitive implications</th>
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<tbody>
<tr>
<td>No</td>
<td>-</td>
<td>-</td>
<td>Disadvantage</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
<td>-</td>
<td>Parity</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Temporary Advantage</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustained Advantage</td>
</tr>
</tbody>
</table>

Hard Sciences and Things: Disadvantage. Parity. Temporary Advantage
Soft Sciences, Processes, People: Sustained
What should a Chief Risk Officer or Chief Financial Officer know?
FSA and MBA and CERA

Explain and evaluate how the behavior of individuals in organizations drives organizational decisions and performance.

Describe and explain the concepts, frameworks, and basic methods of strategic management. Evaluate and assess the numerous factors that comprise and affect the development and implementation of strategies.
Strategic Organizational Behavior

- Leadership
- Communication
  - Transparency
- Decision making
  - Styles
  - Pitfalls/biases
- Groups and Teams
- Conflict, Power
- Organizational Culture

Chap 9-12. 8/13

Hitt, M., Miller, C. and Colella A.
The right ERM fit for a company can be found by involving the company’s employees.
Questions

1. Describe your department culture. Your company culture.
2. Describe the managerial styles used by your manager(s). What do you like/dislike. Your own managerial style.
3. Tell me about a time you disagreed with your boss. Your boss’s boss.
4. Tell me about a time you made a mistake
5. What does your department/company do with non-performers? Marginal performers? What do you do?
6. What are 3 things you would change/improve in your position? Your department? Your company?
7. Tell me about a time you had an idea, suggested an alternative, or had a concern.
Responses
Questions

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Communication Barriers

Organizational Barriers
- Information overload
- Noise, time pressure
- Network breakdowns
- Information distortion
- Cross-cultural barriers

Individual Barriers
- Differing perceptions, semantic differences
- Status differences, self-interest considerations
- Poor listening skills
Decision Making Styles

1. Define the Problem
2. Identify Criteria
3. Gather and Evaluate Info
4. List & Evaluate Alternatives
5. Select Best Alternative
6. Implement and Follow Up

**Perceptual Influences**
- Sensing: Using the 5 senses to identify factual details
- Intuition: Using abstractions and describing the “big picture”

**Judgmental Influences**
- Thinking: Using objective analysis and rational procedures
- Feeling: Using subjective values with emotional and personal factors
Vroom-Yetton-Jago Model

- Enables leader to examine situations to determine which style/level of involvement to engage associates
- 7 questions on decision quality, commitment, problem information and decision acceptance
- Involvement: Autocratic, Consultative, Group-based
Decision Making Pitfalls

**Individuals**
- Cognitive bias
- Confirmation bias
- Anchoring bias
- Ease of recall bias
- Sunk-cost bias

**Groups**
- Groupthink
- Common information-bias
- Diversity-based infighting
- Risky shift
Conflicts

- Dysfunctional or functional/constructive conflicts
- Workplace: relationship, process, and task conflicts
- Structural factors. Cognitive factors. Individual characteristics

Responses

- Competing, Accommodating, Avoiding, Compromising, Collaborating
  - Described in terms of assertiveness and cooperativeness
  - Appropriate response is situational
**Power**

**Typologies (French and Raven)**
- Legitimate power (formal authority)
- Reward power
- Coercive power
- Expert power
- Referent power

**Strategic contingencies model of power**
- By being able to address the major problems and issues faced by the organization
Culture

- Structure
- Networks/Patterns of work

**Centralized Networks**
- Command-and-control hierarchy
- Simple tasks
- Efficiency, speed, accuracy

**Decentralized Networks**
- Complex tasks
- Solving complex problems

**Development and Reinforcement Processes**
**Team Life Cycles. Organization Life-cycles and Changes**
**Competing Values Model**
**High Involvement Management**
Organizational Structure

- Structural characteristics
  - Height; Span Of Control; Departmentation
- Structuring characteristics (policies/approaches)
  - Centralization; Standardization
  - Formalization; Specialization
- Labels
  - Organic vs. mechanistic
  - Learning vs. non-learning
  - Boundary-less vs. traditional
- Role of size
Competing Values Model

- **Clan**: Leadership, Mentors and Coaches, Effectiveness, Cohesion and Morale
- **Adhocracy**: Leadership, Entrepreneurs and Innovators, Effectiveness, Creativity and Innovation
- **Hierarchy**: Leadership, Monitors and Organizers, Effectiveness, Efficiency and Order
- **Market**: Leadership, Hard Drivers and Competitors, Effectiveness, Goal Achievement and Winning

Internal Focus and Integration vs. External Focus and Differentiation
The D’s of ERM

- Deliver
- Decide
- Design
- Deploy
- Discuss
- Disagree
- Dialogue
- Debate
- Dissent
- Drivers
- Distill
- Discern
- Discover
- Decipher
- Debrief
- Dynamic
- Discipline
- Disseminate
- Demonstrate

Learning  Involvement  People  Responsible  Authority

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Leaders and Leadership

Transactional Leaders
Transformational Leaders

- What and How

Contingencies,
Mar/Apr 2012
CRO - Attributes that could contribute to successful leadership are timeless.
“The supreme quality for leadership is unquestionably integrity.”

“Humility must always be the portion of any man …”

“I must have assistants who will solve their own problems and tell me later what they have done."

"Never tell people how to do things. Tell them what to do and they will surprise you with their ingenuity."

“My policy is to have no policy”

“I can overrule his decision if I will, but I cannot well administer …”

“I could not make an argument that would satisfy my own mind, and that proved to me your ground was the right one”

“Did Stanton say I was a damned fool?”

“I always questioned everything.”
“I would rather be right than consistent”

“I would insist on an absolutely frank assessment of all the options”

“We delegate almost to the point of abdication.”

“Advisers who voice dissent too often are soon out of a job. Most people don't keep `no men' around."

“Candor benefits us as managers.”

“We generally used to tell people what to do, and they did exactly what they were told to do and not one other thing.”

“once he sees he's wrong, he just shakes it off and heads in another direction.”

“Everyone claims his margin at every stage, and the sum of the margins is usually ‘no’.”

“All right, you fellows fight it out and I'll decide.”
Leader Profiles 1 of 2

Traits
Contextual and situational intelligence
Studied, Acted, Failed, Criticized, Persisted
Identified and developed desired traits
Character: Integrity, Responsible
Crisis management vs. The art of prevention
Strong team vs. Team-players
Vision and Action
Transformational
High Involvement
Responsibility and Authority
Led through action and by example
Persuased by degrees and by stories
Visit vs. summon
Suggest vs. order
Credit and blame
At the scene. Go to the scene
Immersed in details
Penetrating questions
Sought criticism and correction
Alternative viewpoints
Unity of command
Takeaways

Individually and as a department/organization

- Precept 1
- Behavior drives decisions and performance
- Adeptness can be developed
- Not easy
- Competitive advantages
- What you can do

Study → Act
The text in Slide 7 is *Strategic Management* by Hitt M, Ireland D and Hoskisson R – I would get an older and cheaper edition (eg 8 or 9). At least read Chapters 1-5 (130 pages).

Great books on persuasion: William Ury has written 2 must-reads: *Getting Past No* and *Getting To Yes* and Dale Carnegie’s 1930s classic *How To Win Friends and Influence People* (which Buffett read dozens of times in his early 20s, underlining, highlighting and memorizing passages).

The *Contingencies* article (slide 23) has an extensive list of good biographies – also check out the digital bonus. Study interesting people and companies to see not just what they did, but why and how. *In Their Time* provides a great survey of business leaders which might help you choose additional subjects. Although not contained in the references *The Fifties* by David McCullough and the *Birth of the Modern* by Paul Johnson also survey business developments among other things.

The next slide contains the decision-tree questions.
By Request

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The next 2 slides contain info re: the decision-making tree (slide 15)
Managerial Approaches

Vroom-Yetton-Jago Model

AI: Manager (M) makes own decision using readily available info

AII: M collects required info from associates (A), then makes
decision alone. Problem or decision may or may not be provided;
A do not generate or evaluate alternatives

CI: M shares problem to relevant A one by one requesting input. 
Afterward, makes decision alone; unclear if decision reflects A input

CII: M shares problem to relevant A as a group and obtains their 
ideas & suggestions. Afterward makes decision alone. A input 
may or may not be reflected

GII: M discusses problem with A in group setting. They work together 
to generate and evaluate alternatives and agree on solution. M 
facilitates and provides oversight. M does not force own idea on 
group and will accept and implement a group solution.

Autocratic  Consultative  Group-based
Vroom-Yetton-Jago Model

A  Is there a quality requirement (is it worth working to find best solution or will any number work reasonably well)?
B  Do I have sufficient info to make a high-quality decision?
C  Is the problem structured (do I know the questions to ask and where to look for relevant info)?
D  Is acceptance by associates critical to effective implementation?
E  If I were to make the decision myself, would it be accepted?
F  Do the associates share the organizational goals to be attained in solving this problem?
G  Is conflict among associates likely in preferred solutions?