

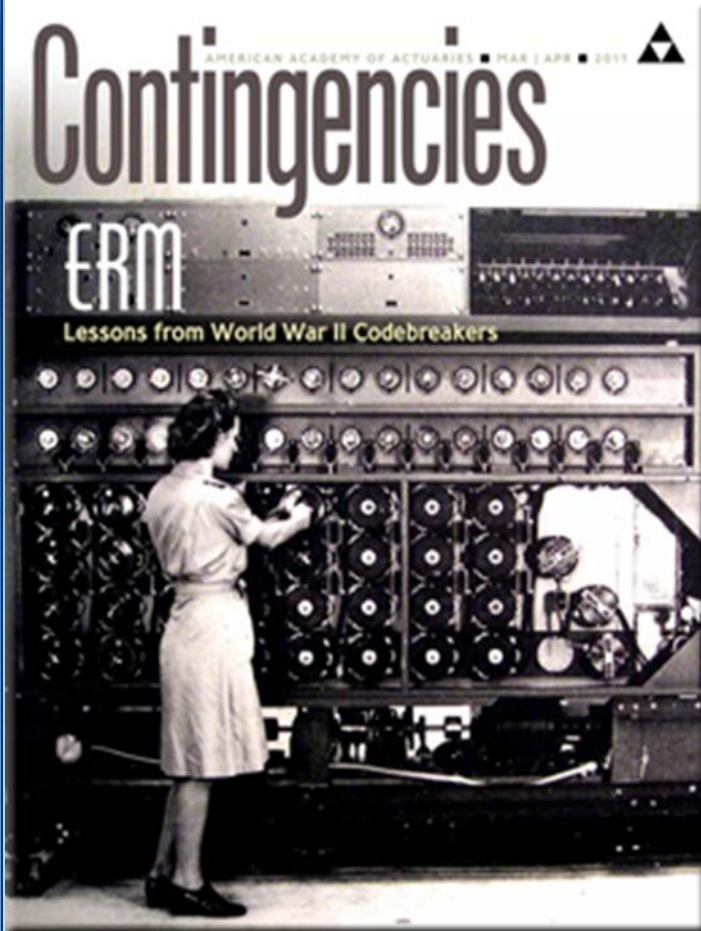
The Decision Making Process

FSA vs. MBA



Tim Cardinal
FSA, MAAA, CERA, MBA





5 stages of intelligence in decision making*

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

* Keegan, J. *Intelligence In War*, New York: Knopf, 2003.

***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 ("1210" = Dec. 10)
15. Color key

2012 Men's Basketball (Through Games of Dec 13, 2011)																							
Duke (9 - 1, RPI 1)																							
Average RPI Wn: 96 Average RPI Lst: 26		WON-LOST RECORD 9 - 1			WINNING PCT. RANK 0.9 (12)			STRENGTH OF SCHEDULE 0.68869 (8)			OPR STRENGTH OF SCHEDULE 0.57198 (16)			TEAM RPI 0.71235 (1)									
DIV. I ONLY		9 - 1			0.9 (12)			0.68869 (8)			0.57198 (16)			0.71235 (1)									
DIV. I NON-CONF		9 - 1			0.9 (12)			0.68869 (8)			0.57198 (16)			0.71235 (1)									
OVERALL		1 - 50			51 - 100			101 - 200			201 +			TOTAL									
HOME		4-1			3-0			0-0			2-0			9-1									
AWAY		1-0			2-0			0-0			1-0			4-0									
NEUTRAL		0-1			0-0			0-0			0-0			0-1									
NON-CONFERENCE		3-0			1-0			0-0			1-0			5-0									
NON-CONFERENCE		4-1			3-0			0-0			2-0			9-1									
1 - 50 (4-1 overall, 4-1 non-conference)		51 - 100 (3-0 overall, 3-0 non-conference)			101 - 200 (0-0 overall, 0-0 non-conference)			201 + (2-0 overall, 2-0 non-conference)															
RPI 1 - 25 (12)		RPI 26 - 50 (2-1)		RPI 51 - 100 (3)		RPI 101 - 200 (0)		RPI 201 + (2)															
RPI	S	Opponent	Score	Date	RPI	S	Opponent	Score	Date	RPI	S	Opponent	Score	Date	RPI	S	Opponent	Score	Date				
21	N	Kansas	68	81	1123	53	H	Davidson	82	69	1118	67	H	Belmont	77	76	1111	249	H	Presbyterian	96	55	1112
					88	N	Washington	85	80	1210								290	N	Tennessee	77	67	1121
RPI 26 - 50 (2-1)		RPI 51 - 100 (3)		RPI 101 - 200 (0)		RPI 201 + (2)																	
26	A	Ohio St.	63	85	1129	27	N	Michigan St.	74	59	1115	29	N	Michigan	82	75	1122	41	H	Cornell St.	87	64	1207
Non-Div I Games:																							
Loss																							
Win																							
Tie																							
Bye																							
S. Rest.																							
Duke																							
(Wed Dec 14 15:15:56 EST 2011)																							
Duke																							
Results against opponents ranked 1-50		Results against opponents ranked 51-100		Results against opponents ranked 101-200		Results against opponents ranked 201-above																	
Although not included in the calculation, this area indicates all results against non-DI 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



Valuable?	Rare?	Difficult to Imitate?	Competitive implications
No	-	-	Disadvantage
Yes	No	-	Parity
Yes	Yes	No	Temporary Advantage
Yes	Yes	Yes	Sustained Advantage

Hard Sciences and Things

Soft Sciences, Processes, People

Disadvantage. Parity. Temporary

Sustained

CROs

CFOs

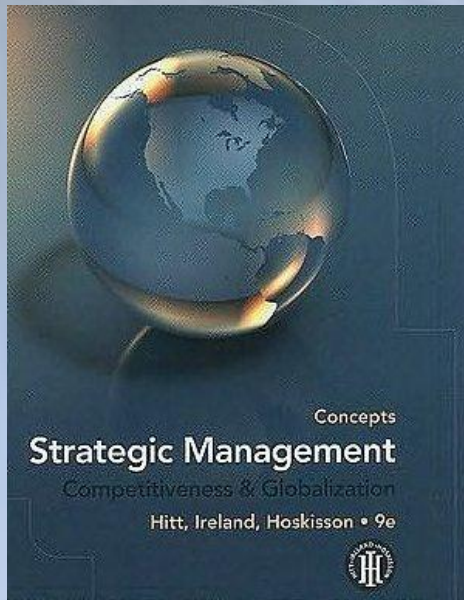


What should a
Chief Risk Officer
or
Chief Financial Officer
know?

FSA and MBA and CERA



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

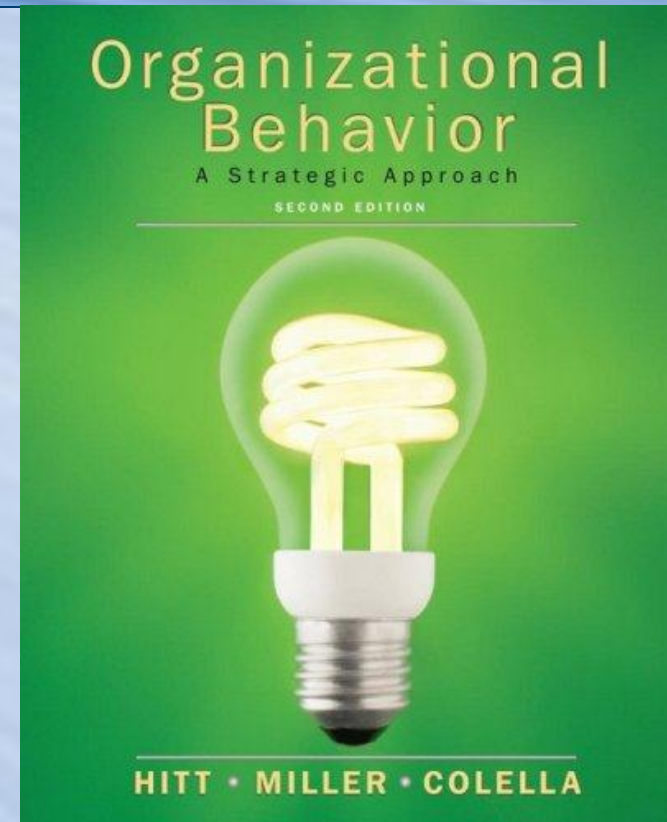


Describe and explain the concepts, frameworks, and basic methods of **strategic management**. Evaluate and assess the numerous factors that comprise and affect the development and implementation of strategies.

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.

Organizational Behavior: A Strategic Approach, 2nd ed. Hoboken NJ: Wiley, 2008

Overview



The Actuary, Feb/Mar 2011

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

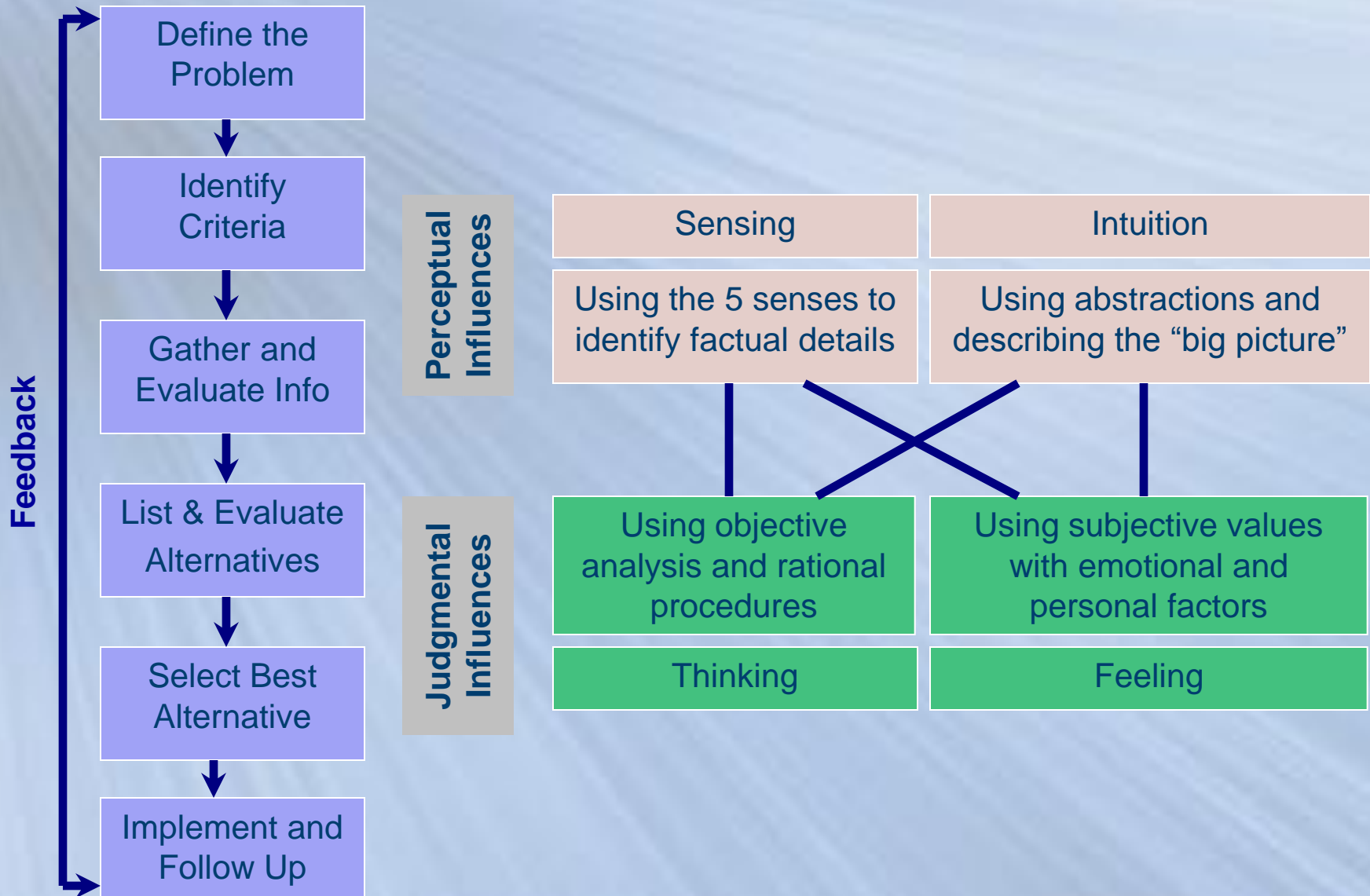
- Information overload
- Noise, time pressure
- Network breakdowns
- Information distortion
- Cross-cultural barriers



Individual Barriers

- Differing perceptions, semantic differences
- Status differences, self-interest considerations
- Poor listening skills

Decision Making Styles

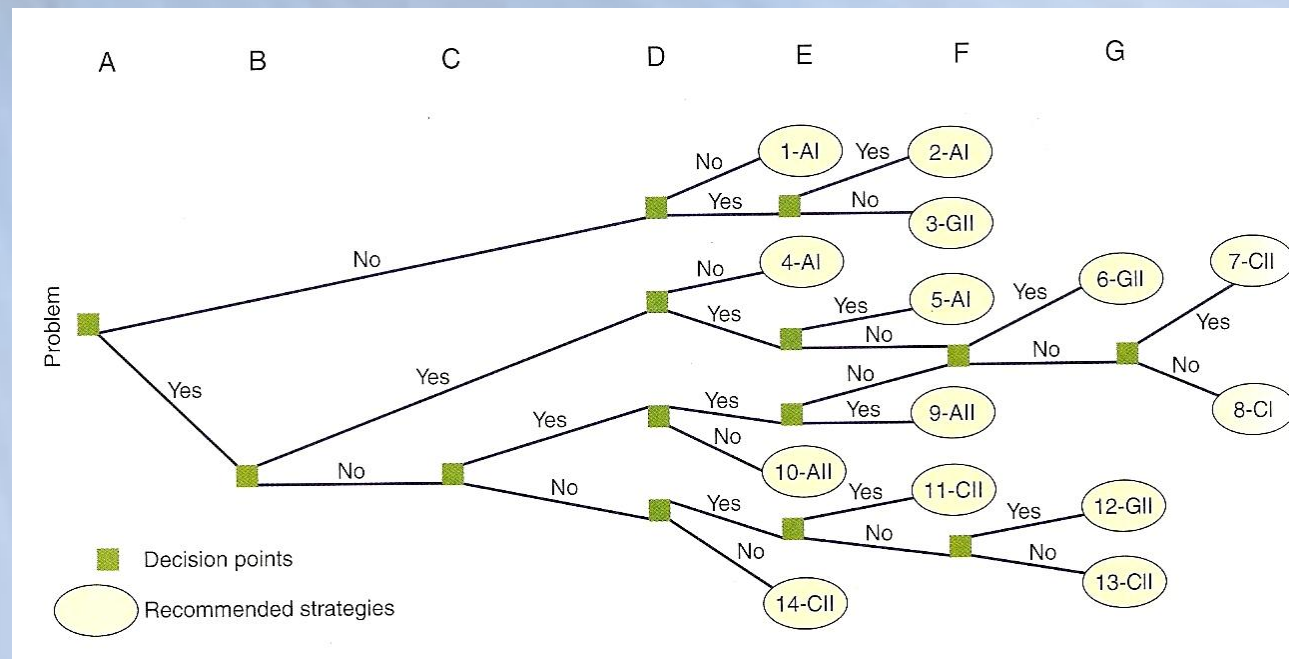


Decision-making Tree



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

Conflict



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

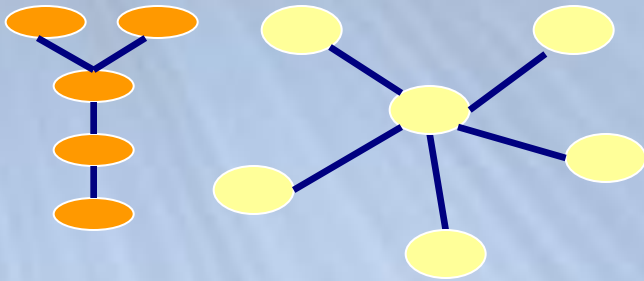
Culture



- Structure
- Networks/Patterns of work

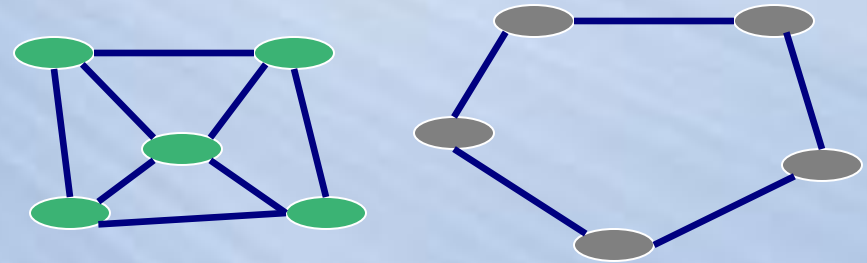
Centralized Networks

- 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



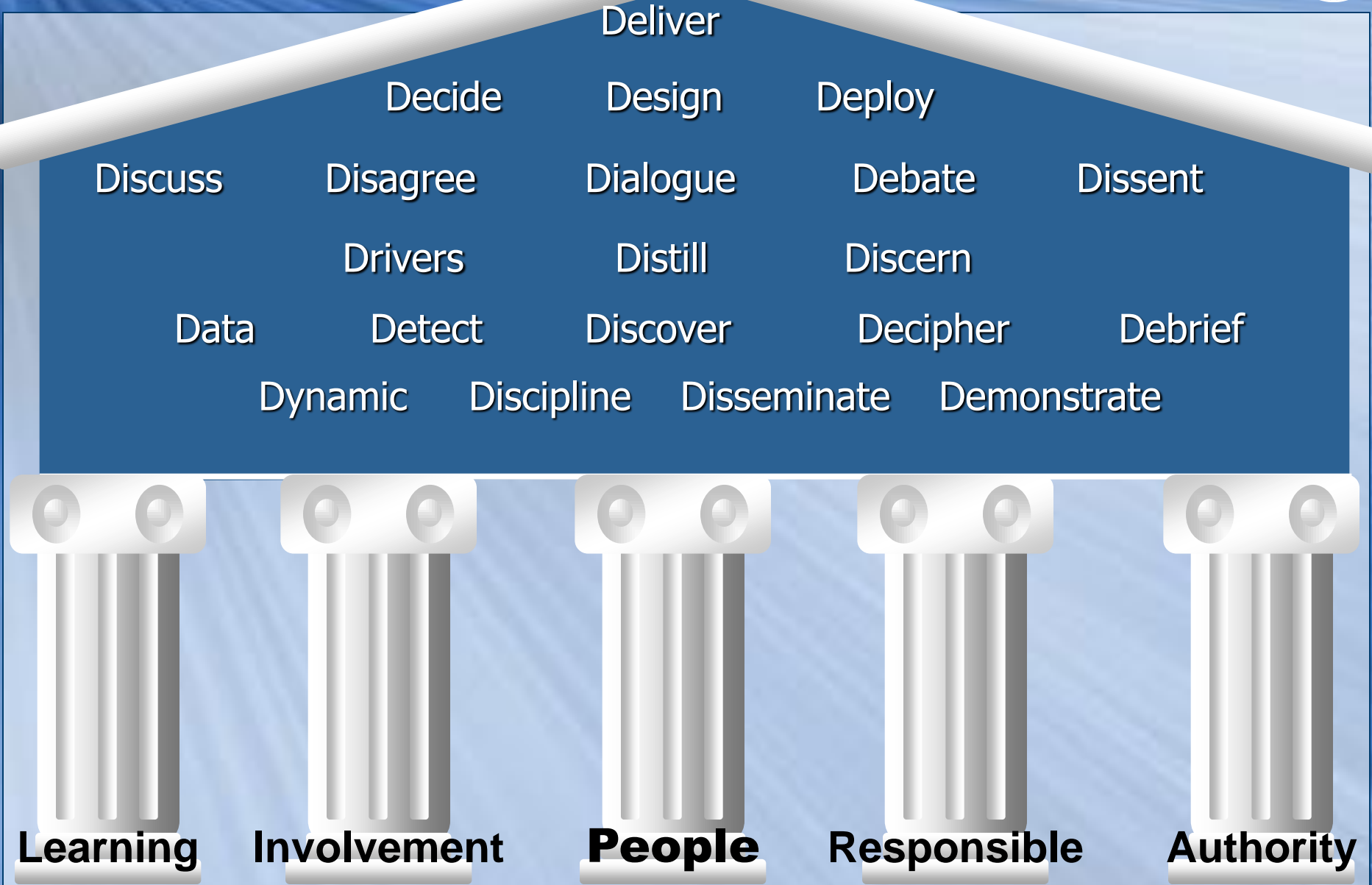
Stability and Control
vs.
Flexibility and Discretion

<p>Clan</p> <p>Leadership <i>Mentors and Coaches</i></p> <p>Effectiveness <i>Cohesion and Morale</i></p>	<p>Adhocracy</p> <p>Leadership <i>Entrepreneurs and Innovators</i></p> <p>Effectiveness <i>Creativity and Innovation</i></p>
<p>Hierarchy</p> <p>Leadership <i>Monitors and Organizers</i></p> <p>Effectiveness <i>Efficiency and Order</i></p>	<p>Market</p> <p>Leadership <i>Hard Drivers and Competitors</i></p> <p>Effectiveness <i>Goal Achievement and Winning</i></p>

Internal Focus and Integration
vs.
External Focus and Differentiation



The D's of ERM



Leaders and Leadership



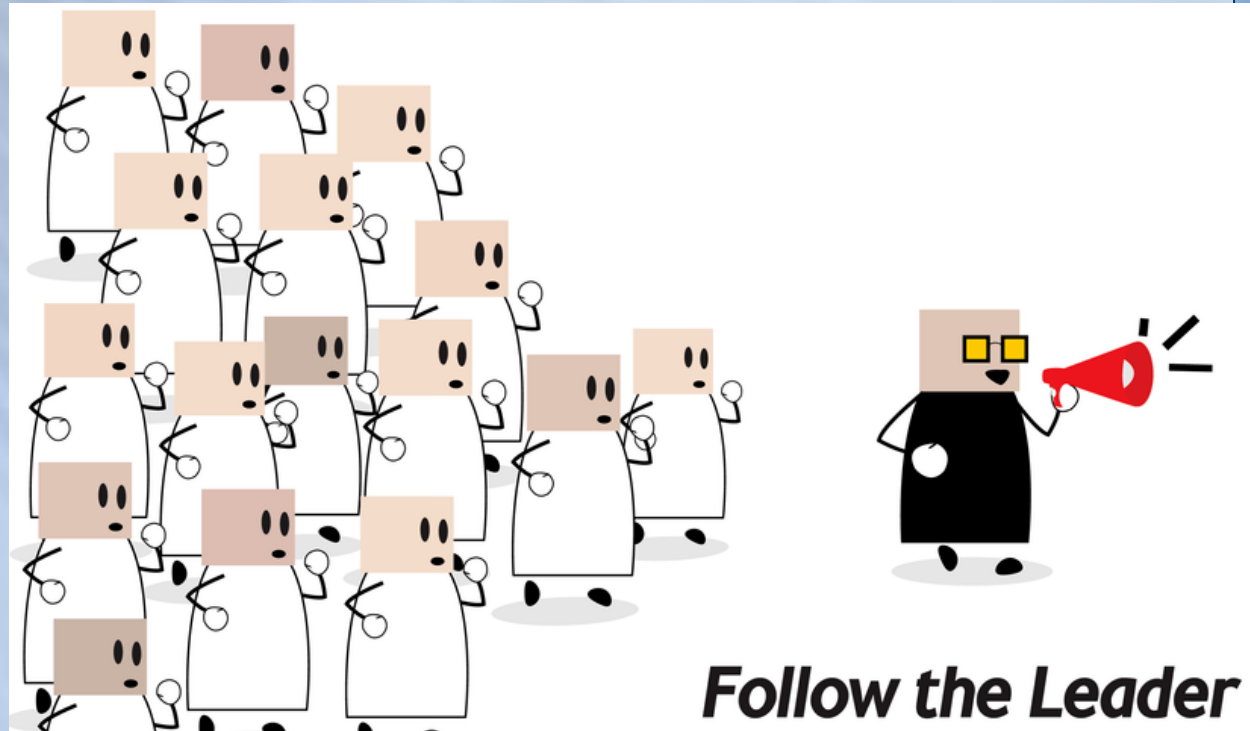
Transactional Leaders

Transformational Leaders

- What and How

Contingencies,
Mar/Apr 2012

CRO - Attributes that could contribute to successful leadership are timeless.



In Their Own Words 1 of 2



“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.”

In Their Own Words 2 of 2



“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



Leader Profiles 2 of 2

Led through action and by example

Persuaded 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

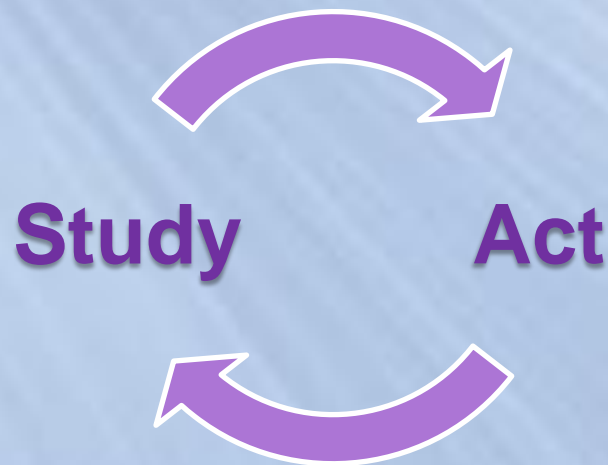
Unity of command

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



Post-presentation addendum



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.

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

Managerial Approaches



Vroom-Yetton-Jago Model

A1: Manager (M) makes own decision using readily available info

All: 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 **C**onsultative **G**roup-based

7 Questions



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?

Questions



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