



SOUND NAVIGATION  
UNCHARTED WATERS

New Zealand Society of Actuaries Conference 2010  
21 - 24 November • Blenheim



# Shades of Tolerance Managing & Measuring Human Nature

New Zealand Society of Actuaries  
November 22, 2010



# Views of Risk

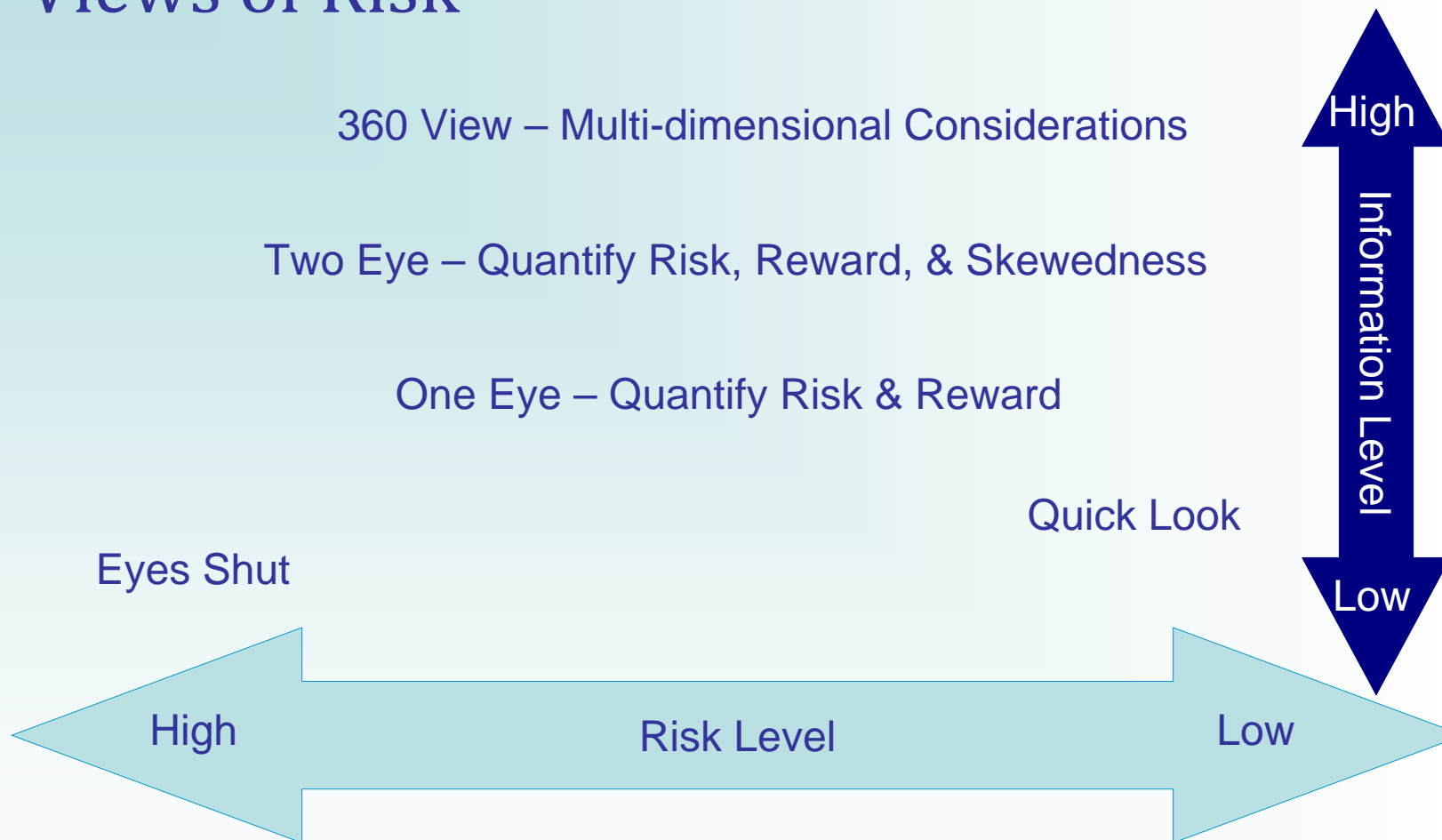
360 View – Multi-dimensional Considerations

Two Eye – Quantify Risk, Reward, & Skewedness

One Eye – Quantify Risk & Reward

Quick Look

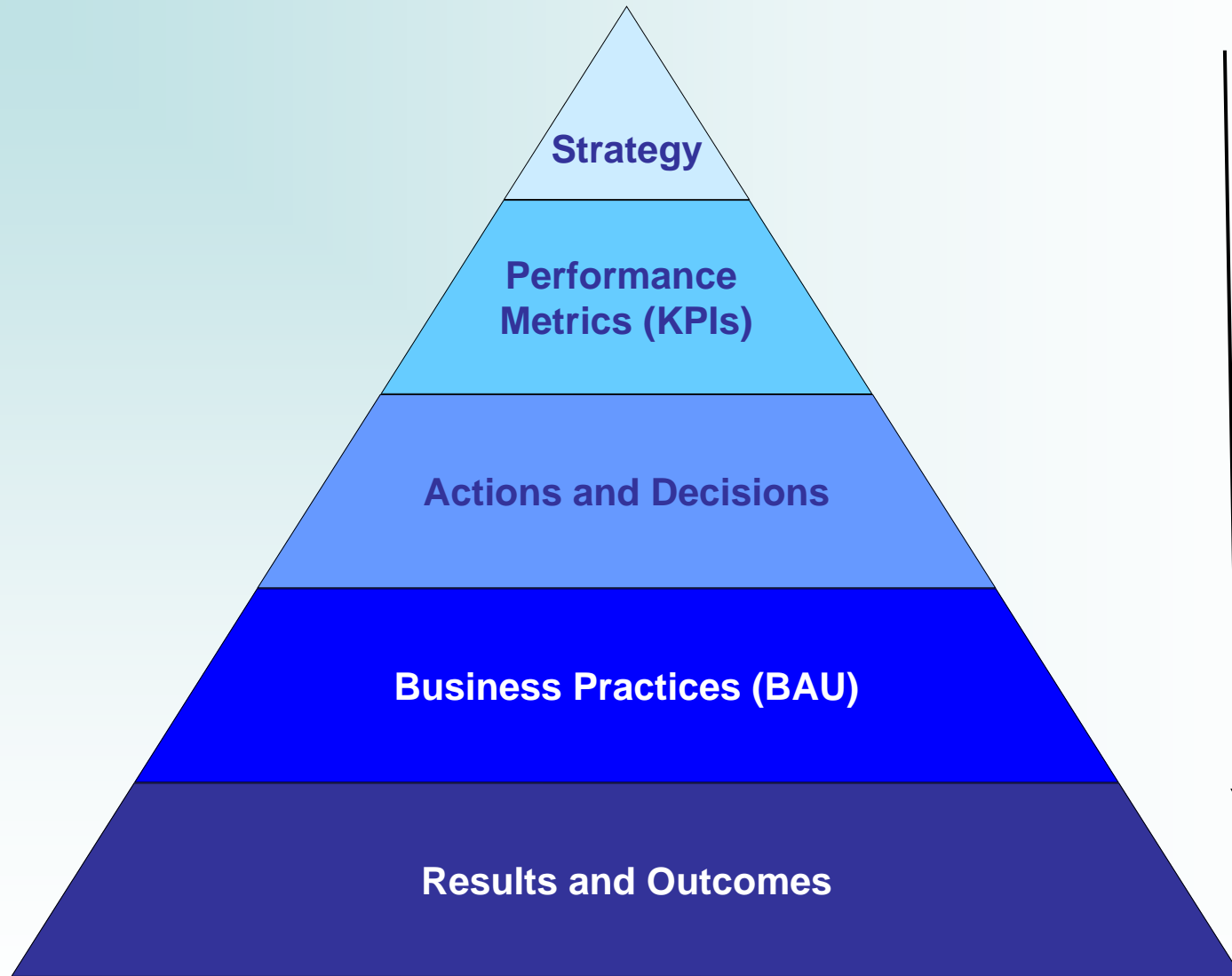
Eyes Shut



# Be Careful



# Applied to the Corporation





## Key Underlying Cause of Risk

- If underlying cause of risk is Human Nature how can it be managed?
- Which Human and What is their Nature?
  - External
    - Customer
    - Vendors
    - Competition
  - Internal
    - Talent
    - Management
    - Leadership

# Considerations in Measuring and Managing Human Nature Risk



- Motivators:
  - Financial
  - Non-Financial
- Perspective of Behaviour:
  - Individual vs. Collective
  - Personalized vs. Detached
  - Acceptance of Accountability
  - Conscious vs. Unconscious
  - Challenges
- View of Risk:
  - Mode of Information Gathering and Analysis
  - Desire to Survive (Life Expectancy)
- Ability to:
  - Control
  - Influence
  - Communicate



# The Risk in Leadership Behaviour

- Motivation for Taking Role
- Background Mapping
- The Leadership Challenge
  - Strategy = Direction and Decision Making
  - Advisory Services (Level of Accountability)
- Life Expectancy and Life Goals
- Motivation
  - Career/Life Plan = Reputation & Experience
  - Compensation & Incentives
    - Heads I Win; Tails I Lose
    - Heads I Win; Tails someone else Loses
    - Heads I win Big; Tails I Win Small



# The Risk in Management Behaviour

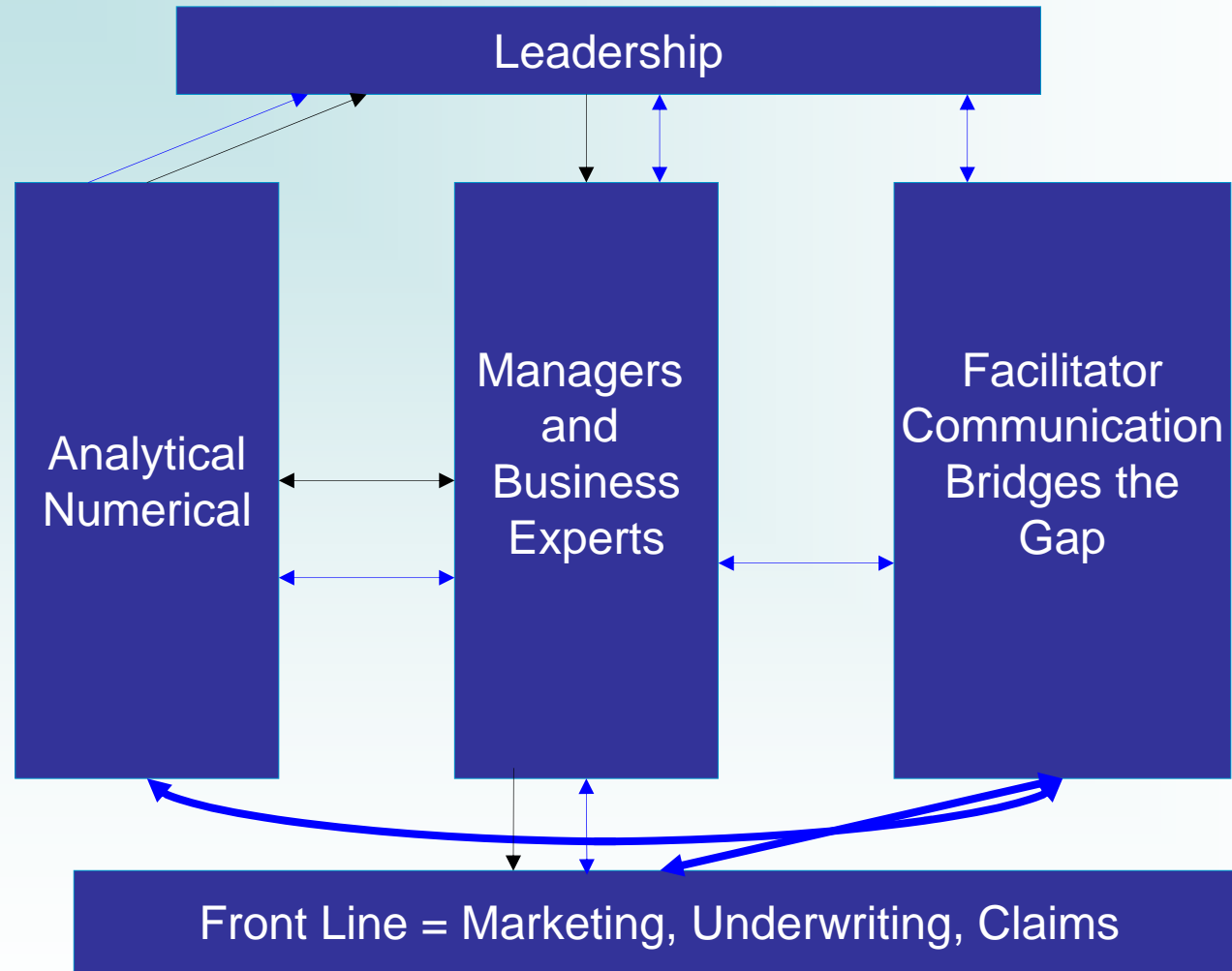
- Required to Define
  - KPI's and Performance Metrics that align with Strategy
  - “Best” Practices or Just Numbers
- The Management Challenge
  - Managing Both ends of the Candle
  - Alignment with Peers (Goals & Communication)
  - Balance between Retaining & Delegating Accountability
- Motivation
  - Vary Considerably among people
  - Desire to Grow and Develop
  - Ability to Make a Difference
  - Work/Life Balance
  - Compensation



# The Risk in Talent Behaviour

- **Aligning Tasks with Skill Set and Comfort Zone**
  - Project Development = New Pavement
  - Business as Usual = Delivering a Process
- **Comfort with Accountability and Influencing**
- **The Talent Challenge**
  - Collectiveness may drive Behaviours
  - Requirement to Meet KPI's
  - Acceptance of Accountability balanced against Ability to Influence
  - Prescriptive Best Practices vs. Situational Flexibility
- **Motivation**
  - Vary Considerably among people
  - Work/Life Balance
  - Desire to Grow and Develop
  - Adding Value

# Team Skills Required to Manage Risk





# Monitoring vs Reporting

- Monitoring differs from reporting. Reporting is usually used to track experience against “targeted” outcomes. Monitoring is used to “influence” outcomes through detailed dissection of specific factors that result in specific outcomes. As part of a monitoring system strategies are developed to affect outcomes based on the organization’s (and/or other parties’) ability to control and/or influence certain factors.
- Reporting is high level summarized information, has magnetism upward, and may be used to react to results. Monitoring is at a granular level of information and is utilized by front line staff and/or other parties to “proactively” influence results. If the monitoring exercise is effective it will show through in the reporting of results. Proactive influence will reduce the need for reactive response. Reporting is usually standardized. What is being Monitored will adjust to Situations.



## Determining Measures to Monitor

- Level of Granularity governed by
  - Touch Point of Human Influence (Action)
  - When is Desired Result of Action Apparent
- Quantitative Measures (cash flows)
  - Typically a Function of 3 Basic Statistics:
    - How Many?
    - How Much?
    - How Long?
  - Patterns and Relationships over Time
  - Variations over Time



# Determining Measures to Monitor

- Qualitative Measures
  - typically focus on Relationship or Image Management
  - May Involve:
    - Ranking/Rating Systems
    - Surveys
    - Feedback Loops
  - Measurement may be of:
    - Collaboration and Commitment
    - Satisfaction
    - Reputation



# What is Being Monitored and How is Human Behaviour being Managed?

- Risk and/or Situation
  - Event
  - Short Term Piloting and/or Testing
  - Gradual Process Development/Manifestation with Anticipated End
  - Cycles of Business as Usual
- Breadth of Influence
  - Narrow = Particular Business Unit
  - Board = Entire Enterprise
  - Really Broad = Market or Market Conditions
- Connection to Human Behaviour and Interrelations thereof - addressing
  - Motivators
  - Perspective
  - Ability of Human to Influence Actions/Decisions
  - Ability for Human Actions/Decisions to Influence Overall Outcomes
- Method of Communication (Visual, Verbal, Listening)



## Papers Referred to

“Risk and Light” 2009 by Dave Ingram

“A New Approach for Managing Operational Risk” 2009 written in collaboration of Towers Perrin and OpRisk Advisory