



Establishing effective risk cultures – leading through influencing

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“Human beings, who are almost unique in having the ability to learn from the experience of others, are also remarkable for their apparent disinclination to do so.” - Douglas Adams



1. Paying attention

Count the number of times the white team passes the basket ball.



Critical Insight

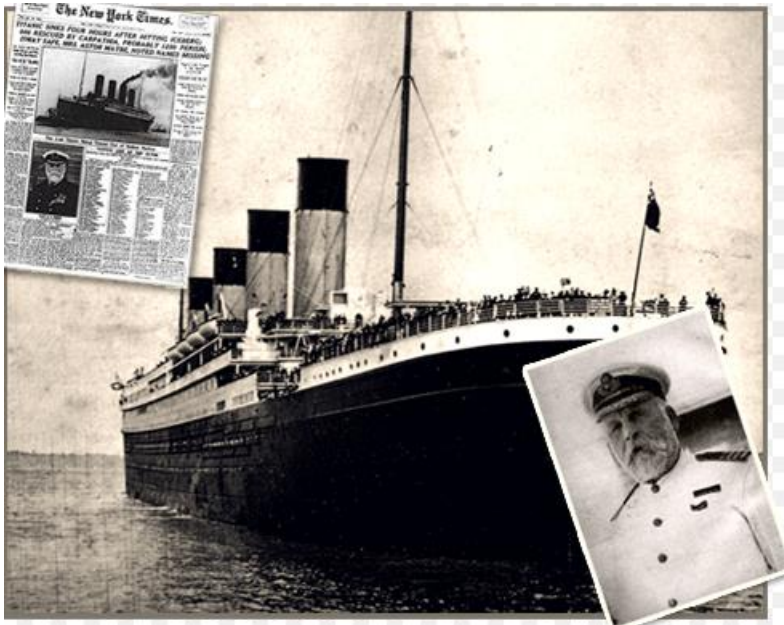


Energy flows
where attention goes
based on our intention

Implication for risk cultures – if we spend all our energy and attention on counting (performance, goals),

we run the risk of missing the gorillas (internal risks, external risks, market changes) OR missing other things

2. Relying on our own expertise...



“I cannot conceive of any vital disaster happening to this vessel. Modern shipbuilding has gone beyond that.” - Captain EJ Smith (Captain of the Titanic)





“The stockmarket has reached a permanently high plateau”

– Irving Fisher, economist, 1929



If excessive smoking actually plays a role in the production of lung cancer, it seems to be a minor one."

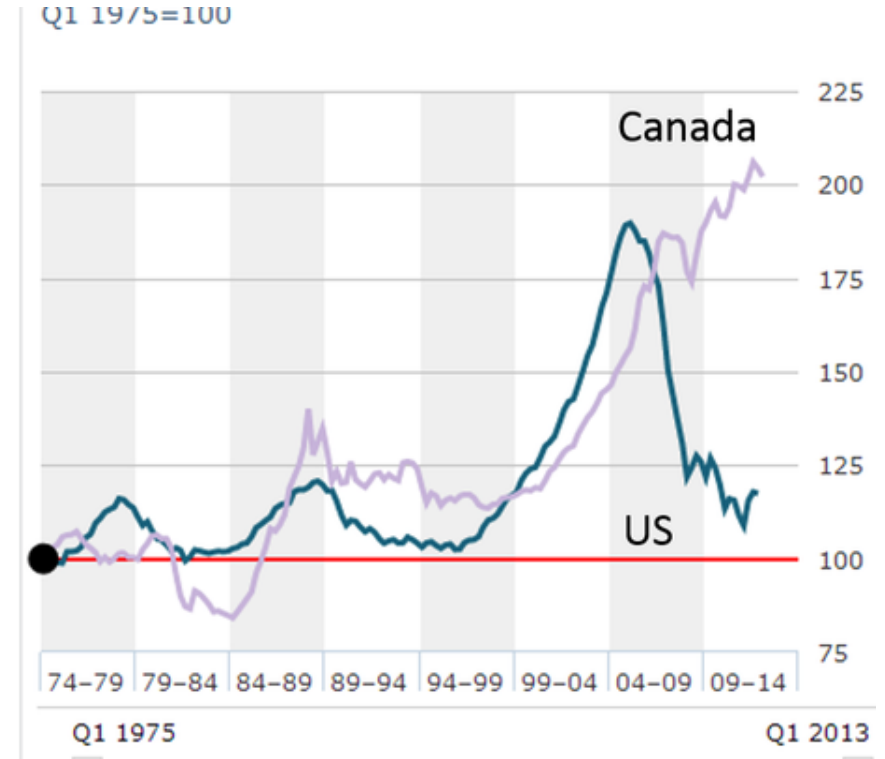
- W.C. Heuper, National Cancer Institute, 1954





“Although a 'bubble' in home prices for the nation as a whole does not appear likely, there do appear to be, at a minimum, signs of froth in some local markets where home prices seem to have risen to unsustainable levels.”

- Alan Greenspan, 2005



Real house prices, 1975:1 = 100. The Economist

Critical Insight



2

Human beings tend to over-rely on our current knowledge and past experiences.

Response needed:

- encourage curiosity and enquiry
- encourage openness to ongoing feedback and learning

3. Loss averse not risk averse

Choices

Case 1

As compensation for being away from work as a result of your participation in Actuaries Summit, **you are being granted a tax-free \$1,000 reimbursement.**

In addition, you must make a choice from one of the following options:

Choice A:

50% chance of gaining \$1,000 more and
50% chance of gaining nothing more

Choice B:

100% chance of gaining \$500 more



Choices

Case 2

As compensation for being away from work as a result of your participation in Actuaries Summit, **you are being granted a tax-free \$2,000 reimbursement.**

In addition, you must make a choice from one of the following options:

Choice A:

50% chance of losing \$1,000 and
50% chance of losing nothing

Choice B:

100% chance of losing \$500.



SONY



“In times of change, **learners** inherit the earth, while *the learned* find themselves beautifully equipped to deal with a world that no longer exists.” - *Eric Hoffer*

Critical Insight

3

We are often loss adverse rather than risk averse.

People may be prepared to take significant risks to avoid loss – loss of status, loss of credibility, loss of remuneration.

Response needed is to create an environment where:

- it is psychologically safe to raise issues
- transparency is rewarded
- there is more to gain than lose by genuinely focusing on risk AND opportunity from risk.

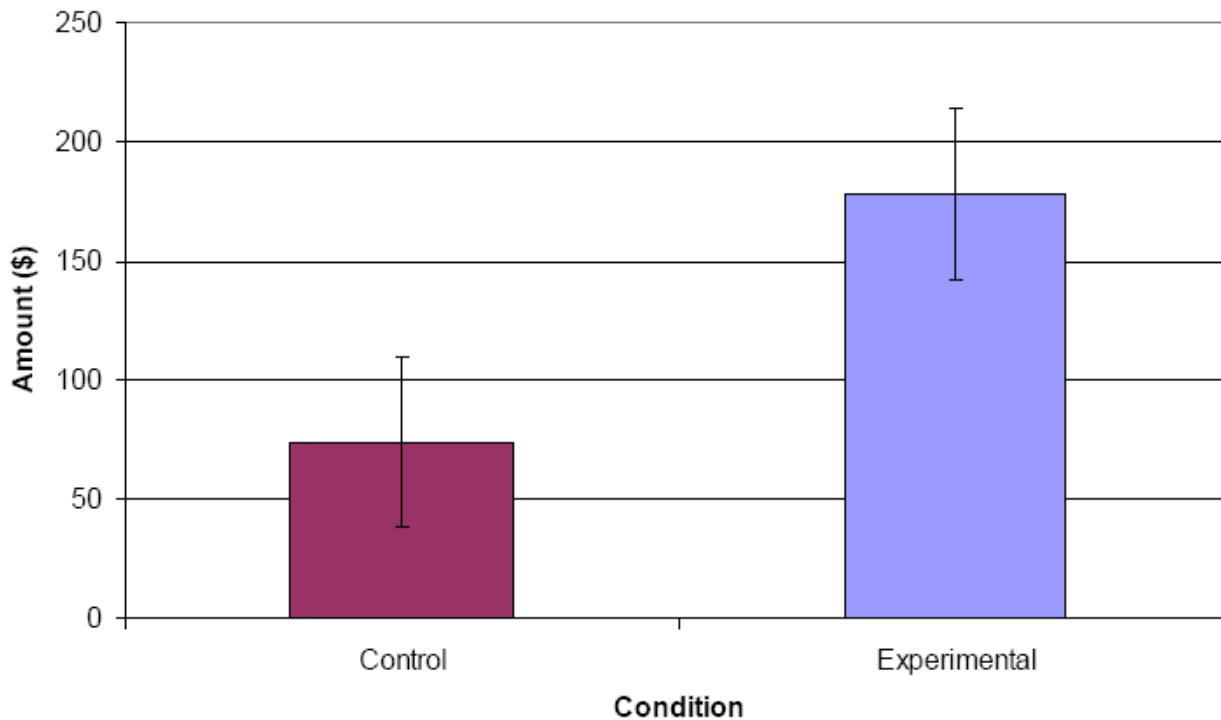
4. Discounting uncertainty

Stanford University Study – immersive virtual reality



Impact on retirement savings questionnaire

Allocation toward retirement by condition



Critical Insight



People tend to discount events that are a long way off and more unclear or abstract. Genuine risks may be ignored.

Response required:

- increase the ability to touch, feel and understand the potential risks.
- Use methods such as scenario planning

5. Systems thinking

The story of a new car release....

Critical Insight

5

In complex systems, cause and effect are often separated by distance and time..

We can respond by creating mechanisms to reduce the distance / time gap, or...



we can “kick the can down the road”.....

Response required: build mechanisms **and relationships** where

- information flows quickly and effectively
- throughout the organisation
- as and when required.

6. Influence of authority...



Critical Insight



When we are instructed to do something that violates our values, do we follow our values or follow authority?

Response required:

- create environment where it is appropriate to respectfully challenge the status quo.
- leaders to role model the desirable behaviours and attitudes.

7. The Power of Narrative

- “Vivid examples are overwhelmingly more influential in shaping decisions than abstract information....

even if the information is more accurate”

- Daniel Kahneman, 2002 Nobel Prize in Economic Science



The story of Norm

WMDs, CDOs, Dotcoms.....

Critical Insight



We are heavily influenced by narrative , and by the emotional impact of narrative.

This can lead to Group-think which can bring a significant risk of ignoring or discounting information outside of this.

Response required:

- embed organisation narratives congruent with a risk effective culture
- transparency, sharing of information, taking responsibility.

Culture, leadership and human biases unduly affect organisational risks

1. **Paying attention** - Energy flows where attention goes based on our intention
2. **Relying on our own expertise** - We over-rely on our knowledge and experiences
3. **Loss averse** - We are often loss averse rather than risk averse
4. **Discounting uncertainty** - We are less likely to be concerned about events down the track
5. **Systems thinking** - Complex systems bring distance + time differences diminishing judgement
6. **Influence of authority** - We are unduly influenced by the white coat of authority
7. **The Power of Narrative** - We are heavily influenced by the prevailing narrative (group think)

Exercise

1. Which of these issues have you observed in your organisations?
2. What have been the consequences (or potential consequences)?

What can you do to influence?

1. Pay attention

McKinsey View:

- Ask powerful questions.
- Provide an environment which encourages multiple perspectives to be shared, heard and considered.
- Consider the larger systems (internal and external) at play

2. Take Responsibility

“ It is not our abilities that show what we truly are,
it is our *choices*.”

- Albus Dumbledore



3. Be the leader your organisation needs

Culture – Schein's Top 3 Influences

1. *What a leader attends to, measures, rewards and controls*
2. *How leaders react to critical incidents*
3. *Leader role modeling*
4. *Criteria for recruitment, promotion and retirement*
5. *Formal and informal socialising*
6. *Recurring systems and procedures*
7. *Organisational hierarchy and structures and structure.*



“The ultimate measure of a man is not where he stands in moments of comfort and convenience, but where he stands at times of challenge and controversy” – Martin Luther King

Key take-aways

1. We can influence the culture and environment we are in through what we pay attention to, the choices we make and how we model risk appropriate behaviours
2. Scenarios and sensitivities are powerful ways of assessing risk and building capacity to respond
3. Actively seek to learn from the experiences of others
4. Create a culture of openness and apply narratives that explore the emerging future rather than defend the prevailing wisdom

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