Article from:

The Stepping Stone

November 2014 – Issue 56

What Would You Do?

Responses to "Is the Emperor Wearing Clothes?"

By John West Hadley

In the August issue of *The Stepping Stone*, I posed the question *"What would you do?"* to the product situation below. Here are your responses, and the real-life conclusion of the situation. Send your own ideas for situations to pose in upcoming issues to *SteppingStone@JHACareers.com*.

IS THE EMPEROR WEARING CLOTHES?

Anselm is in charge of the actuarial group supporting all non-employee-benefit product lines for his company. Their business model is to evaluate potential deals brought to them by outside brokers, and invest in the ones that seem to have substantial profit and business revenue potential. This led them two years ago to his newest product line, involving modest face amount business. Everyone was excited both that the broker's projections showed a great fit to the sorts of goals they typically seek, and it looked like a product that provided a substantial benefit to the customers.

Anselm has been growing uneasy about the line's progress. The way to success as explained by the broker seems to keep morphing, and he hasn't cracked the code on how to tap into their growth targets without sacrificing what seems like a good profit margin. There isn't a lot of pressure from above so far, but he worries about the long-term prospects, and has asked an external consultant to help him do some deeper analysis into the line.

The results lead him to an entirely different understanding of the dynamics, and convince him that (1) it will take much longer than expected before the product line will achieve the combination of revenue and profits that would make the company happy, and (2) the true winners in the product line are not the ultimate consumers, but the intermediaries.

Although Anselm wasn't the one who brought the deal to his company in the first place, he was a strong supporter from the start. He has some concern about the "kill the messenger" syndrome, as well as where the new growth in his product lines and operation will come from if the line is dropped.

What would you do?

Editor's Note: My thanks to everyone who weighed in.

The responses were almost unanimous on delivering the bad news immediately. That may be in part a consequence of reviewing a situation like this objectively in black and white. I suspect that those in the thick of it might at least consider a range of options, such as:

- *Actively advocate dropping the line.*
- *Mildly suggest that there might be reason to reconsider the line and do additional analysis.*
- *Hold off a bit on any action or communication, looking for the right opportunity to bring up some questions about the line.*
- *Present questions designed to get management to specifically ask for more analysis, without necessarily revealing that he already has a lot in his pocket.*
- *Do more analysis before taking any action or letting on that anything is amiss.*

The general tenor of the responses was captured concisely here:

Actuary #1

Anselm needs to deliver the bad news and not concern himself with repercussions made against him. Bad news must be delivered, and delivered as soon as possible once determined. The last thing any good company or good manager should want is a "yes man." Should Anselm be the scapegoat for the bad results and, say, lose his job as a result, he's probably a lot better off in the long run than working for a company or manager that would act in such a way in such a circumstance.

CONTINUED ON PAGE 6

John Hadley is a career counselor who works with job seekers frustrated with their search, and professionals struggling to increase their visibility and influence. He can be reached at *John@JHACareers.com* or 908.725.2437. Find his free *Career Tips* newsletter and other resources at *www.JHACareers.com*, and watch for his upcoming book, *Cruising Through Executive Interviews … To Land That 6 Figure Job You Deserve.*

Here are two other responses that expanded on how Anselm and the company might proceed:

Actuary #2

It does not sound as if this opportunistic organization will shut down if they reconsider, or even shut down, their latest venture. The most important job actuaries do is to understand the situation well enough to give good advice for the future.

Knowing the shortcomings could lead to an effective action plan for improvement. Part of the burden may lie with the broker, as morphing expectations may indicate he hasn't lived up to his initial commitment.

Besides conforming the next financial projection to what has already happened and to what is now better understood, Anselm should communicate to those "higher up" to reset expectations and to educate them. Every new day is a new opportunity, so there is no reason to stick with a poor choice from the past. They probably will find better outlets for the time, effort and capital that will be freed up by either:

- Recognizing this line will never be big, so it can limp along as a more modest line if it does not get in the way, or
- Exiting this line because it gets in the way of using time and effort for something with more opportunity.

Actuary #3

Effective companies and individuals are able to react and remedy situations like this, or know how and when to withdraw from them. You hope the footwork was done upfront to map out the deal particulars, by setting responsibilities and expectations, and performing a cost/benefit analysis. Usually the analysis is populated with key assumptions and drivers, and expectations of the parties involved.

In this example, it would be great if Anselm could dial up the road map and identify the shortfalls. He might learn that the marketing costs are too high, the response rates too low, the persistency results inadequate, etc. Knowing the shortcomings could lead to an effective action plan for improvement. Part of the burden may lie with the broker, as morphing expectations may indicate he hasn't lived up to his initial commitment. In concert with setting initial expectations, it's also helpful to have compensation set up to mirror results, and punish poor performance.

Anselm should help the company look for new growth opportunities, and not let a bad performer linger. As a manager I would admire his strength at identifying the pitfalls and seeking recourse with the current problem. It's important to stress getting ducks in order on the front end of deals to help manage situations that go awry.

These comments directly addressed the "kill the messenger" syndrome:

- I once had a manager who was fired and she interpreted the firing as a "kill the messenger" response. It was months afterwards when I had basically taken her place that I learned the truth—there was no connection. She lost her job because of a thousand and one other things that came before the high profile issue that spurred her manager into action. It wasn't "kill the messenger"; it was a "straw that broke the camel's back."
- If there is a strong "kill the messenger" policy, others also likely have suspicions but don't want to be the messenger. Many messengers and scapegoats are killed in these environments, so I'd consider looking for another area or another company.
- I'd rather get killed as the messenger than as the one who knew something was wrong and didn't inform the proper people. Perhaps the first step is to get a few people together to figure out if there's a palatable fix to the issue. I think if the message is *"There's a problem, we know why there's a problem, here's how we fix it,"* you can defuse the kill-the-messenger time bomb … if I were in a situation where the company pinned the blame on whoever discovered the problem, it might be a blessing to be divorced from that situation.
- Even though Anselm supported the deal, his diligence in monitoring the progress and determining the problems with the deal should be looked upon favorably by management.
- Sitting on bad news and covering it up seems more likely a reason to fire someone than an honest error.

And finally, one respondent wrote an essay on how to avoid getting into these situations in the first place. I've edited it for clarity and brevity:

Welcome to the real world of company actuarial work, where you are expected to wear two hats, player and umpire. Learn to use the phrases *"I'm not comfortable with"* and *"Sounds interesting, here are some of the things we should get more information (or data) on…"* etc. Use *"Yes, and"* instead of "*Yes, but"* to not sound obstructionist. And don't be shy to make the list of issues as long as you need. Talk about next steps and offer *"Here's what I think I can look into, maybe Marketing could get copies of actual contracts and brochures, and insurers who have done this successfully in the past.…*" By this approach, you get everyone in the game, and when there are disappointments and delays, you have someone else on the line besides you.

Set up this paradigm early and remind people often. Otherwise, you risk these outcomes:

1. You did the research, and you're not comfortable with the potential success: *"Why didn't you tell us earlier?"*
2. You miss the deadline, and are blamed and now under intense pressure to cut corners and hope for the best.
3. You agree to a set of best-case assumptions, the company loses money, and you're back on the job market.

To deal effectively with Marketing, the best defense is a good offense. Know the market better than they do. When Marketing overlooks critical details in stating "what's going on in the market," you can then refute them right then and there. You have the duty and right to assert yourself, and not be scapegoated.

Finally, in your dual role, you can never get fully on a new venture bandwagon. Just be conservatively positive about the idea in theory, and in the same breath start listing what further research would be necessary before *"*we" (not just the actuary) can be comfortable with it, making sure everyone at the meeting has plenty on their to do lists. After the meeting, write an email after you've had time to think of a few more potential negatives, and recite your recollection of which department was assigned which task.

Get people on board early, as soon as you have an inkling you're falling behind schedule. Make sure to cite subsequent priorities that have gotten in the way, something which others have to acknowledge. Suggest a specific down-sized deliverable on a specific date that you have had time to think about.

Once you experience some success at this whole game, you will gain confidence, and Marketing will respect you more. The CEO will take note, and you will become the one the CEO tells Marketing they have to convince before even bothering him or her with the idea. You are seen as the person who can make or break a new venture.

WHAT REALLY HAPPENED?

Anselm took his analysis to the chief actuary, making his case for why it was time to pull the plug on the product line. The chief actuary agreed, and they together approached the CEO. While everyone bemoaned the fact that they had gotten into the line in the first place, Anselm breathed a sigh of relief when there was no serious finger-pointing in his direction. In fact, they seemed pleased that he had taken it upon himself to bring up the issues. They began plans to exit the line, and he turned his attention to exploring new growth opportunities for his operation.

Welcome to the real world of company actuarial work, where you are expected to wear two hats, player and umpire.