

FIDELITY/ CRIME OBSERVER



TABLE OF CONTENTS

1. [Infographic] Recognizing and Managing the Unpredictable
2. Organizational Resiliency
3. Analytics: A Great Tool to Identify Theft
4. 7 Ways to Test the Reliability of Your Organization & [New Whitepaper] What is an HRO— Download

[INFOGRAPHIC] RECOGNIZING AND MANAGING THE UNPREDICTABLE

What is a High Reliability Organization (HRO)? A High-reliability organization (HRO) is an organization that has succeeded in avoiding catastrophes in an environment where normal accidents can be expected due to risk factors and complexity. — Wikipedia

What makes an HRO So Unique? They operate under challenging conditions yet experience fewer problems than would be anticipated.

How Do They Succeed? They have developed ways of "managing the unexpected" better than most organizations. — *Managing the Unexpected: Sustained Performance in a Complex World*. Weick KE, Sutcliffe KM

5 Principles of HROs:

1. HROs are Preoccupied with Failures
2. HROs Resist the Temptation to Simplify Matters
3. HROs are Highly Sensitive to Operational Performance
4. HROs are Committed to Resilience
5. HROs Defer to Expertise

View our latest infographic here: blog.lowerrisk.com/recognizing-managing-the-unpredictable/

ABOUT US

Lowers Risk Group

provides comprehensive enterprise risk management solutions to organizations operating in high-risk, highly-regulated environments and organizations that value risk mitigation.

Great American Insurance Group

understands the importance of choosing a financially strong company. We are an organization built for the long term and are committed to giving you that strength. For nearly 150 years, Americans have trusted us to protect them. Our innovative insurance solutions and specialization serves niche marketplaces that we know well. This expertise gives us a successful foundation that spans generations.

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ORGANIZATIONAL RESILIENCY

How Does the Way You Handle Mistakes Drive Reliability?



One of the most common descriptions of the High Reliability Organization (HRO) is that it is “resilient.” Here is how the Oxford English Dictionary defines resilient:

1. The capacity to recover quickly from difficulties; toughness.
2. The ability of a substance to spring back into shape; elasticity.

The definition points directly at two important characteristics of organizational resilience. First, organizations show resilience in response to a difficulty or deformity. Resilience is reactive, not predictive. Thus, it is not the kind of capacity that is based on a careful analysis of potential faults, with mitigating solutions pre-positioned to cope. In fact, the resilient organization will invent solutions to unexpected problems on the fly.

The second feature is that when an unexpected problem occurs, the elastic—resilient—organization will continue to function normally. It continues to produce desired outcomes despite the problem (and internalizes the solution so that a future response to the problem is even faster).

Weick and Sutcliffe summarize the resilient organization very clearly:

In moments of resilience, conditions vary yet the effect remains the same. That difference lies at the heart of a commitment to resilience.[1]

For a more complete review of the High Reliability Organization, download our newest whitepaper, [Building a High Reliability Organization](#).

[1] Weick, Karl E. and Kathleen M. Sutcliffe. *Managing the Unexpected: Sustained Performance in a Complex World*, 3rd Edition. Hoboken, NJ: John Wiley & Sons, 2015. p. 98.

ANALYTICS

A great tool to identify theft but only if you look at the data

By: Richard A. Searcy, Director of Crime Claims
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A transportation company invested in a fuel and maintenance program to track the expenses of their delivery vehicles. Drivers were issued fleet cards with a unique PIN to purchase fuel and emergency maintenance while on the road. The program was set up to flag fuel purchases in excess of \$200. A \$200 fuel purchase is not unusual for a large tractor, depending upon the fluctuating price of diesel.

The transportation manager was charged with keeping track of fuel purchases. He did this by reviewing reports for each driver.

The company grew by acquiring a competitor. As a result the manager took on additional responsibilities. Unfortunately the additional work occupied a lot more of his time. To meet deadlines he stopped examining the detail in the fuel reports and instead relied upon the totals. He rationalized that he would resume reviewing the reports as soon as he got caught up. That did not happen for a long time.

Finally after two years, the manager took the time to review some of the fuel reports. The data showed one particular driver incurred multiple purchases of \$500. He examined the driver's movements and the purchases more closely and found many more suspicious examples of very large purchases of diesel fuel. There were instances where he calculated the driver purchased much more fuel than the tractor's fuel tank could hold and on multiple occasions even when the driver was off duty.

While drivers were instructed to report odometer readings at the pump the reporting by this driver seemed inaccurate and unreliable. Based upon the tractor records, the miles per gallon were less than other drivers.

The suspicious purchases were made at one particular service station. Some purchases at this location could have been legitimate so further investigation was required.

The manager parked at the station where the suspicious purchases were made and waited. He witnessed the driver park his truck well apart from the fuel pumps and



enter the building. After chatting at the checkout register, he left 5 minutes later.

When he returned to the office the manager pulled the data for this driver. Inexplicably, while not even hooked up to a diesel fuel pump, \$530 was charged to the fuel card for the purchase of 271 gallons.

He reported his findings to the local sheriff's department. A sheriff accompanied the manager to the station and observed the driver park his vehicle away from the pumps and enter the building. The data subsequently reflected a purchase of \$500 of fuel.

The sheriff commenced an investigation which disclosed the driver and manager of the fuel station perpetrated a scheme where by the fuel station charged phantom fuel purchases on the driver's fuel card. The two split the proceeds of the bogus sales.

Using route records, fuel records for all drivers, and other documents, the company calculated the scheme cost them over \$300,000.



Many companies utilize analytical software programs. The data mined from these programs can be invaluable in improving efficiency but can also be used as a way to identify potential theft. However,

"...if you don't examine the data faithfully the information is meaningless."

In this case red flags appeared for two years but nothing was done about them. The information was there but the company failed to take the time to notice it. It was a costly lesson.



7 WAYS TO TEST THE RELIABILITY OF YOUR ORGANIZATION

If you are a manager in an organization, especially one that faces a complex, dynamic environment, you should be interested in learning how the principles of the High Reliability Organization (HRO) can help you. Your aim should be to develop an organization that moves continuously toward greater reliability of critical outcomes, using every failure as an opportunity for improvement.

To get started, it is very helpful to understand the interaction of perception (evidence, seeing, measuring, identifying) and conception (theory, understanding, generalizing, classifying). When we see something, we evaluate it through the lens of our concepts of what it “should” be based on experience, training, beliefs, or just wishful thinking. In fact, our conception can sometimes overwhelm the evidence in front of our faces, ruling out possibilities that don’t “fit.”

In the HRO, “mindful organizing” breaks the complacent connection between the standard conception of operations and typical events. It encourages an open-minded perception of events without simplifying them with preconceived ideas. The HRO pays attention to the smallest of failures as indicators of potentially significant problems.

We have identified 7 factors that help to make this abstract nature of HROs more concrete, with more actionable steps toward installing HRO principles in your organization. Please see them below and visit our Risk Management Blog Here:

<http://blog.lowerrisk.com/>

1. Your Mission Isn’t Just Lip Service— HROs refine their mission over time to zoom in on the critical outcomes that truly define the organization. The mission is not just a blurb with happy-talk: it is the focused goal of the organization that justifies its existence.

2. No One Pulls Rank— The tone from the top matters in most organizational endeavors, and achieving HRO capacity is one of them. In the HRO, leadership includes group, unit, and team leaders as well as top management. There is a shared understanding about how to address and communicate failure, and communicating failure is accepted and expected as it moves up the chain of command. No one pulls rank.

3. You Know Where to Find the Experts— A corollary of leadership, one of the main principles of HROs is to recognize that expertise resides in the people closest to, and most knowledgeable about, a given operation. Solutions are identified by the facts on the ground as experienced by someone who knows what should happen in an operation, not by someone up the hierarchy.

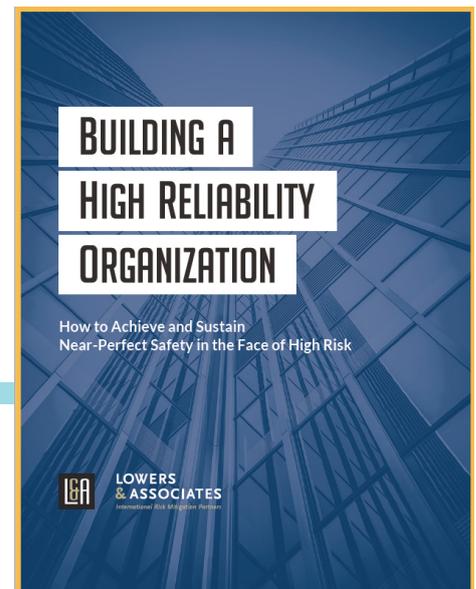
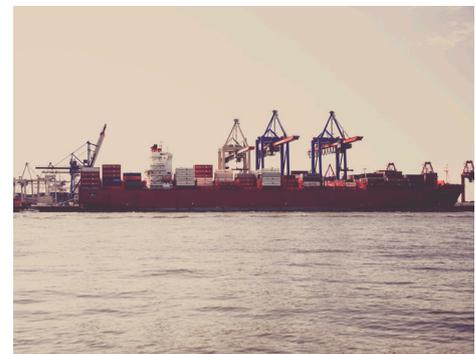
4. The Blinders are Off— HROs do not permit what “everyone knows” to prevent it from seeing what is actually happening in a given event. It is open to new information and adapts accordingly. This is a cultural trait that exists at every level in the organization.

5. You Don’t Set-it-and-Forget-it— The cultural conditions of the HRO aren’t something they set, then forget. Leaders create the mission and framework to transfer the mindful mindset of the HRO to every worker. This takes time and it takes training. The HRO makes local experts of its people who share a common worldview about perceptions and failure.

6. Good Enough is Never Good Enough— Although the proper cultural domain is a pervasive characteristic of HROs, these organizations will also avail themselves of tools like Six-Sigma to refine processes. Good process design is a foundation for good performance. However, process routines are never assumed to be perfect. People managing the processes will always watch them critically.

7. You Mind the Mistakes— At its core, an HRO is an organization that pays attention to even small failures or anomalies as evidence of potentially larger problems.

In the end, the HRO is a learning organization that continuously adapts to variability in its environment, including its failures. It is always paradoxical in the sense that it seeks perfect reliability knowing that perfection is never possible. It is a process, not an end point.



IN OUR BUILDING A HIGH RELIABILITY ORGANIZATION WHITEPAPER...

We summarize the remarkable achievements of HROs and describe how these organizations deliver stunning reliability in complex environments. We will give examples that illustrate the principles of HROs in action. We will also provide some guidelines on how managers can deploy HRO capabilities in their own organizations. Included is a tool to help assess what level of HRO capability an organization has on a range of key dimensions.

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