
At the Intersection

An investigation into the integration and alignment of the Balanced Scorecard with operational risk management frameworks to enhance strategic execution in the UK Financial services industry.

Abstract

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- ❑ This research project was premised on the relatively simple idea that managers need to manage with 'one eye on performance, and one eye on risk'.
- ❑ Focusing on the UK financial services industry, this project set out to answer the following research question: How can UK financial services organisations integrate and align their performance management (PM) and operational risk management (ORM) processes to enhance strategic execution?
- ❑ Analysis of the literature and research (comprising 21 semi-structured interviews) yielded several key observations;
 1. A significant body of knowledge exists on the individual PM and ORM processes however there is an obvious knowledge gap when it comes to integrating and aligning the two processes.
 2. The UK financial service industry is extremely competitive and highly regulated. However in general terms it is reactive, focused on tactical level operations and indicator-driven.

Abstract (2)

3. There is an observable lack of maturity in relation to PM and ORM practices, and where these are employed, they are often silo processes.
- The literature and research pointed towards significant potential benefits of integrating PM and ORM, including:
1. Reduction in strategy failure rates, which various estimates measure at 40-70%.
 2. Reduction in disruptions and financial costs resulting from operational risk losses. It is estimated that the average initial cost of operational risk loss is US\$65 million, and that subsequent losses may be twelve times this figure, blowing out to an average cost of US\$780 million (Dunnett et al, 2005 and Levy et al, 2006).
 3. Up to a 25% reduction in regulatory capital requirements.
 4. Reduction in duplication of effort and cost of the individual processes.

Abstract (3)

- ❑ The proposed Risk-based performance (R-bp) approach was received well, though there was some concern about its broad scope and practical implementation. These concerns are addressed via the use of a three scorecard framework and differentiating between the types and purpose of indicators employed.
- ❑ The R-bp approach brings together the information from the three underlying scorecards into an Execution Map – a simple, causal diagram that visualises performance, risk, controls and action status. The R-bp approach also provides a number of other tools and processes supporting implementation and maintenance.

Further information

Please visit <http://www.riskbasedperformance.com/> for further information related to this study and the Risk-based performance approach to the integration and alignment of corporate performance management and operational risk management.

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