
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.

Research introduction

Research Background

Over the last 10 years, consulting in the area's of Corporate Performance Management/Balanced Scorecard and Operational Risk Management, the author noticed;

- ❑ a consistent pattern of behaviour where-by organisations implement CPM/BSC and ORM as separate 'silo' processes
- ❑ the connection between these processes and enhanced strategic execution is rarely made; or rarely done well
- ❑ an initial scan of academic and business literature in the lead up to this research project, shows little research into the integration and alignment of performance and risk management

The author believes that organisations significantly increase the cost and overall workload involved in implementing and managing separate processes, while significantly reducing the potential benefits of integration.

Research Introduction

This project was the final dissertation project for the completion of the authors' Masters in Business Administration (MBA) via Henley Management College.

The project was undertaken in late 2006/early 2007 and involved interviews with over 20 financial services organisations in the city of London.

Research question

How should companies integrate the Balanced Scorecard and operational risk management to enhance strategic execution?

Supporting the research question, secondary research objectives were;

1. To identify current best practice, from literature and industry, relating to BSC and ORM.
2. To test the applicability of the proposed Risk-based performance methodology as an approach to integration and alignment of Balanced Scorecard and operational risk management.
3. To identify likely benefits of integrating Balanced Scorecard and operational risk management processes, specifically with relation to strategic execution.

Industry context – The Financial Services Industry

- ❑ Is the single largest contributor to the UK balance of payments.
- ❑ Is a major contributor to the GDP, and a major employer (employing just over one million people).
- ❑ London is the world's leading financial centre, competing with New York primarily
- ❑ A key difference between London and New York is that the latter sources a large volume of business from the US domestic market, whereas London has the largest share of international business.
- ❑ In addition to competitive pressures, the industry faces significant regulatory pressures, see figure 1.

Figure 1 - Regulatory drivers

This figure shows the timetable and volume of directives and other EU orientating initiatives for the UK financial services industry

	Asset Management	Banking	Capital Market	Insurance	Retail Intermediaries	2006					2007				2008
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
						EU measures adopted by not get implemented in the UK									
Capital Requirement Directive	●	●			●	[Timeline bar]									
Markets in Financial Instruments Directive	●	●	●	●	●	[Timeline bar]									
Reinsurance Directive				●		[Timeline bar]									
Third Money Laundering Directive	●	●	●	●	●	[Timeline bar]									
Transparency Directive	●		●			[Timeline bar]									
Unfair Commercial Practices Directive	●	●		●	●	[Timeline bar]									
Measures proposed but not get adopted															
Credit for Consumers Directive		●			●	[Timeline bar]									
Regulation on information accompanying wire transfers	●	●	●	●	●	[Timeline bar]									
Measures not get proposed															
Clearing and settlement initiative		●	●												
Payment Services Directives		●													
Solvency 2 project				●											
Amendments															
Undertakings for collective Investment in Transferable Securities Directive	●		●			[Timeline bar]									

Source: International Regulatory Outlook November 2005

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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