
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.

The Risk-based performance methodology

Risk-based performance methodology

- ❑ has emerged from 2-3 consultancy projects undertaken with financial services organisations
- ❑ is designed to:
 - address the challenges of strategic execution in a complex, regulated and competitive environment
 - promote understanding of, and enable the management of trade-offs between performance and risk , whilst making an explicit link to strategic execution
- ❑ enables executives to keep *one eye on performance and one eye on risk*
- ❑ uses a three scorecard model to promote clarify and focus

Risk-based performance methodology (2)

- ❑ uses a three scorecard model to promote clarify and focus
- ❑ builds on Kaplan and Norton's Balanced Scorecard concept and is designed to support risk frameworks such as COSO framework
- ❑ has been deployed to support Basel 2 and SOX compliance
- ❑ incorporate both "hard" quantitative data-based indicators and "soft" qualitative, managerial judgement and experience-based indicators

Figure 12 – The Risk-based performance framework

This figure shows the components of, and causal relationship within Risk-based performance framework.

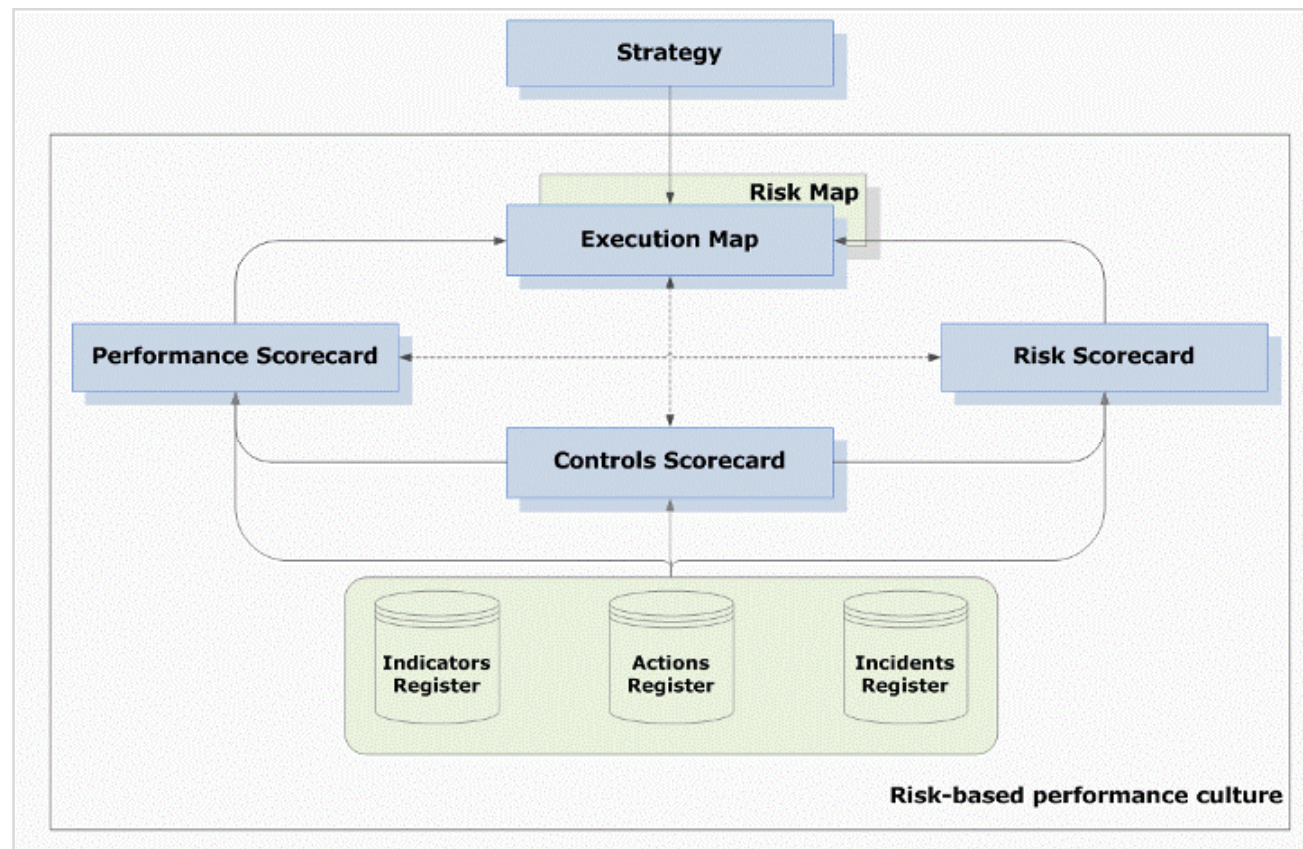


Figure 13 – Risk-based performance scorecards

This figure shows the three different scorecards within the Risk-based performance model, their purpose and the type of indicators used within each.

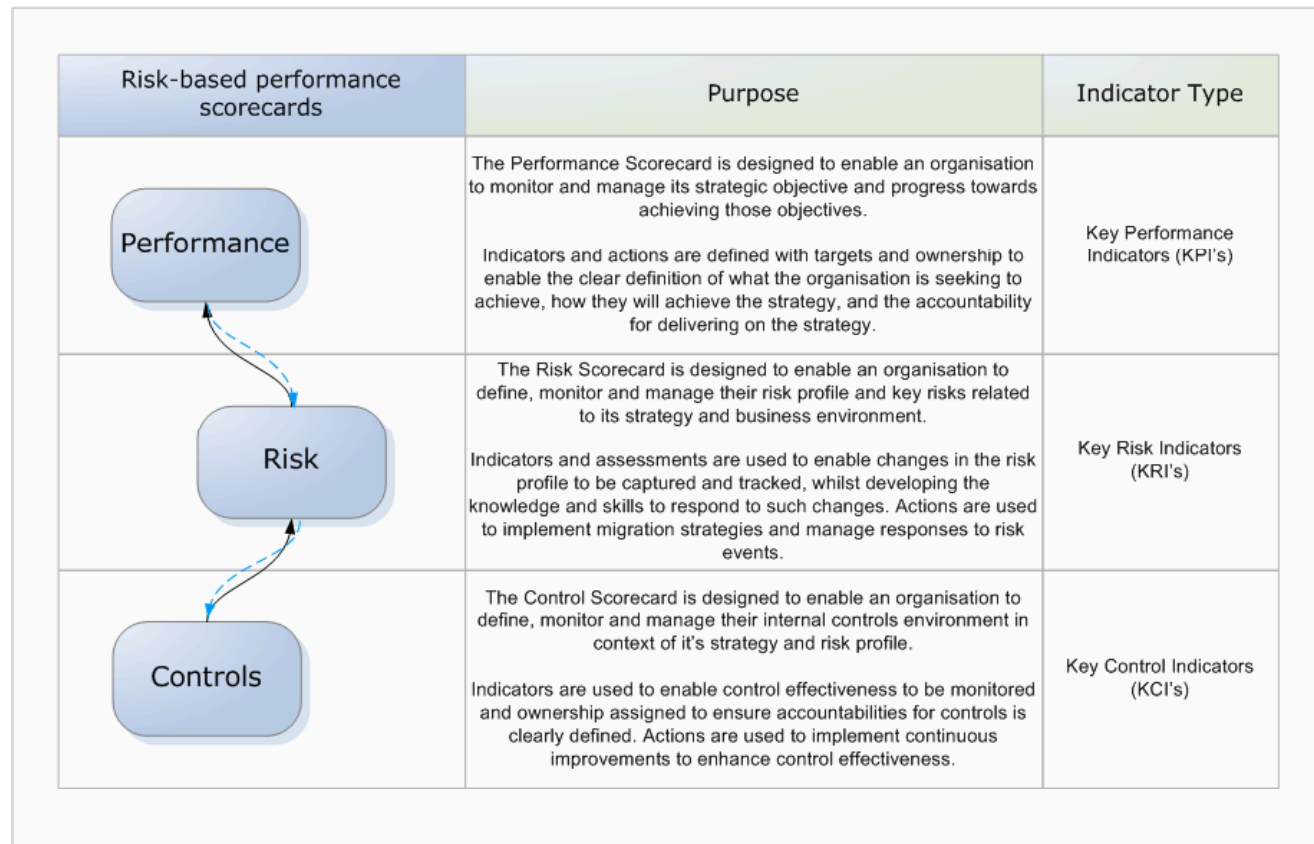


Figure 14 – Key tools

This figure shows four key tools included within the Risk-based performance methodology.


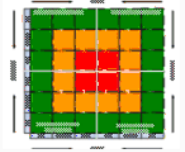
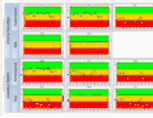

Risk-based performance key tools	Definition	Purpose
<p>Execution Map</p>	<p>The execution map is based on the strategy map concept with the key different being the execution map enable organisations to see performance, risk, controls and projects information in a single, concise cause 'n' effect diagram.</p>	
<p>Risk Map</p>	<p>The Risk Map is used to map Key Risk using the dimensions of Impact and Probability. The Risk Map perspectives are aligned to the Execution Map perspectives.</p>	
<p>Controls Dashboard</p>	<p>The Controls Dashboard is designed to show control effectiveness and enable variations to be quickly identified.</p>	
<p>Strategic Gantt</p>	<p>The Strategic Gantt is designed to provide a high-level overview of the actions that are underway within the organisation to address deficiencies related to objectives, key risks or key controls. These are the actions that drive strategic execution.</p>	

Figure 15 – Relationship within the Risk-based performance approach

This figure shows the relationship and alignment of the major components within the Risk-based performance approach.

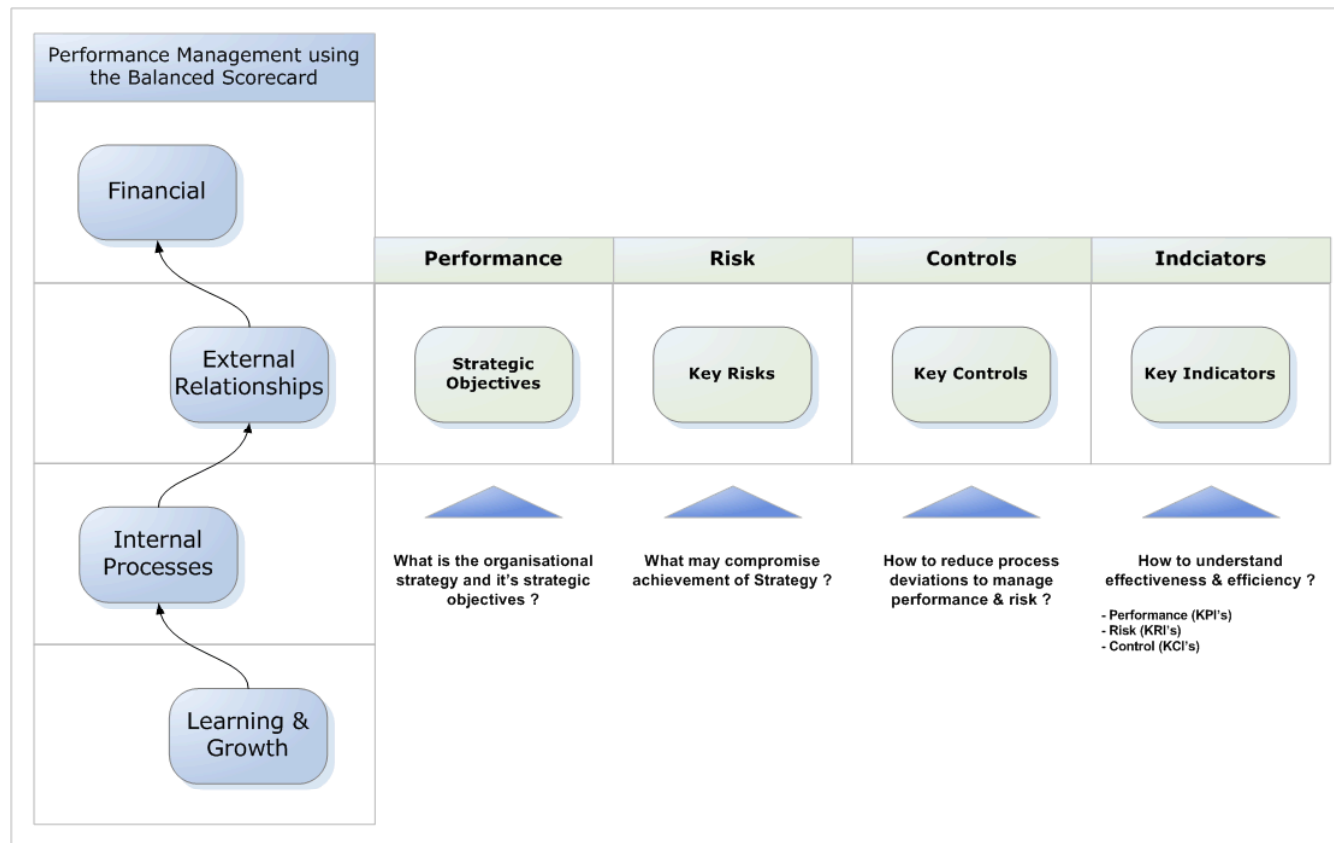


Figure 16 – Strategic Execution architecture

When considering the integration and alignment of performance and risk management, it is important to be clear about where execution takes place within an organisation – what could be called the strategic execution architecture of an organisation.

The key to strategic execution is the processes, people and systems within an organisation. These are within the ‘leading’ perspectives within the Balanced Scorecard and this is where operational risk resides.

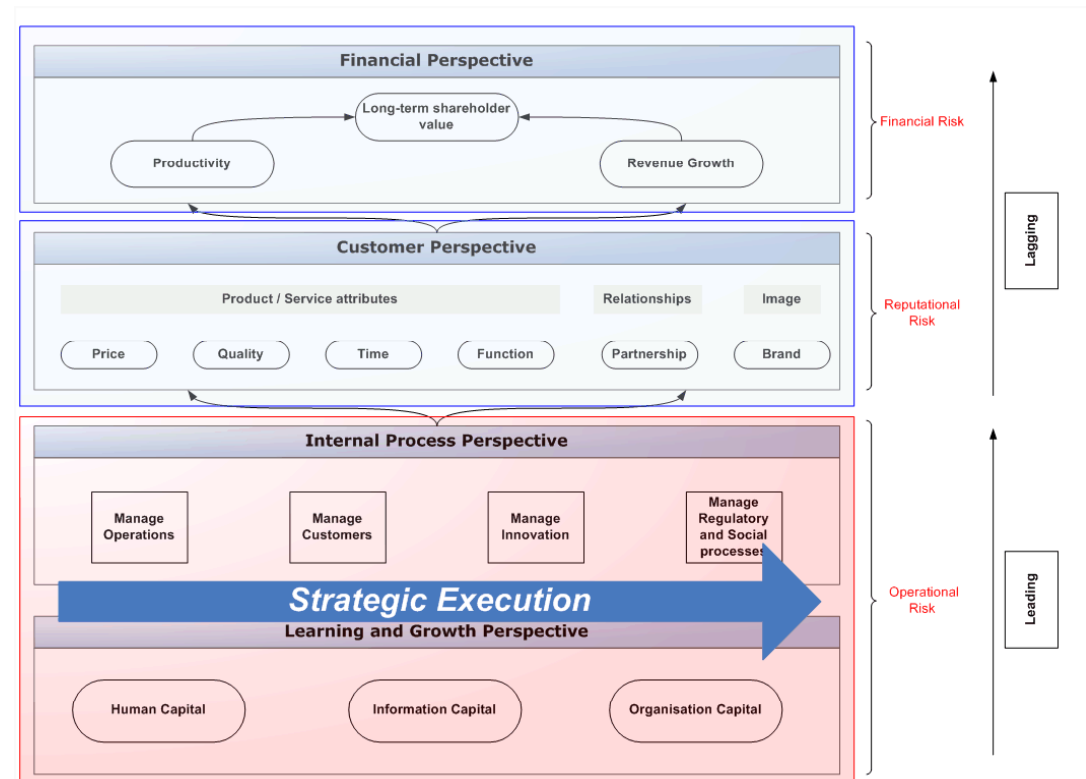


Figure 17 – Integration and alignment at a Macro and Micro level

At the macro level, the overall strategic environment and organisational strategy should be considered. Organisations should take a holistic view in considering the relationships along the three dimensions of, performance, risk and controls.

At the micro level, organisations should be considering integration and alignment in the context of specific strategic objectives, considering the what level of risk appetite they are willing to bear to achieve an objective; the level of risk exposure and the capacity their organisation has to digest the level of risk incidents, implied from their appetite and exposure.

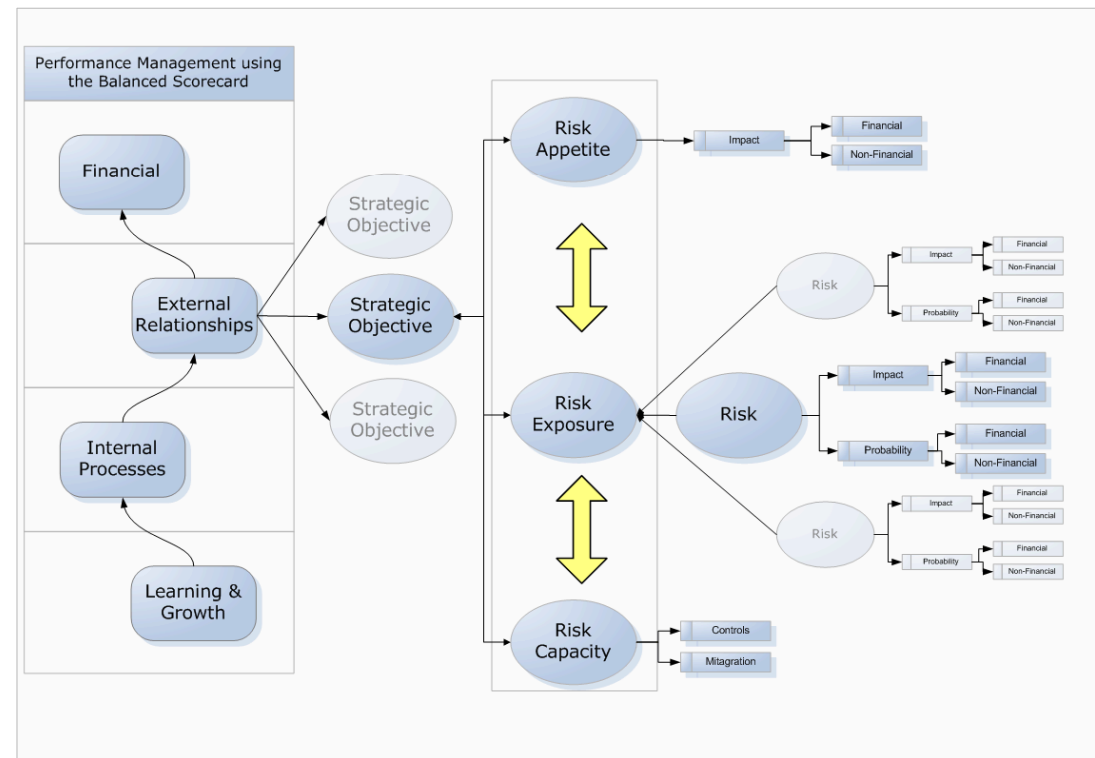


Figure 18 – Risk-based performance development process

This figure shows the process that may be undertaken to develop the different components within the Risk-based performance framework.

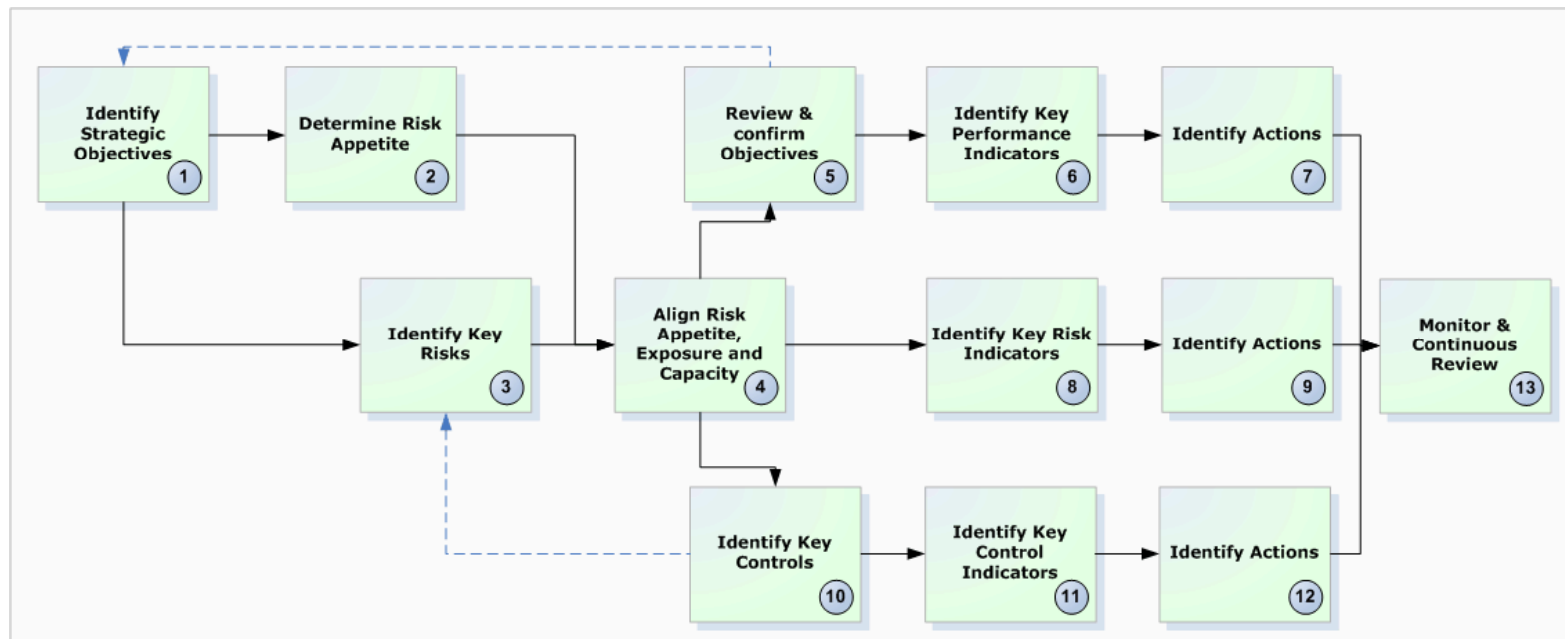
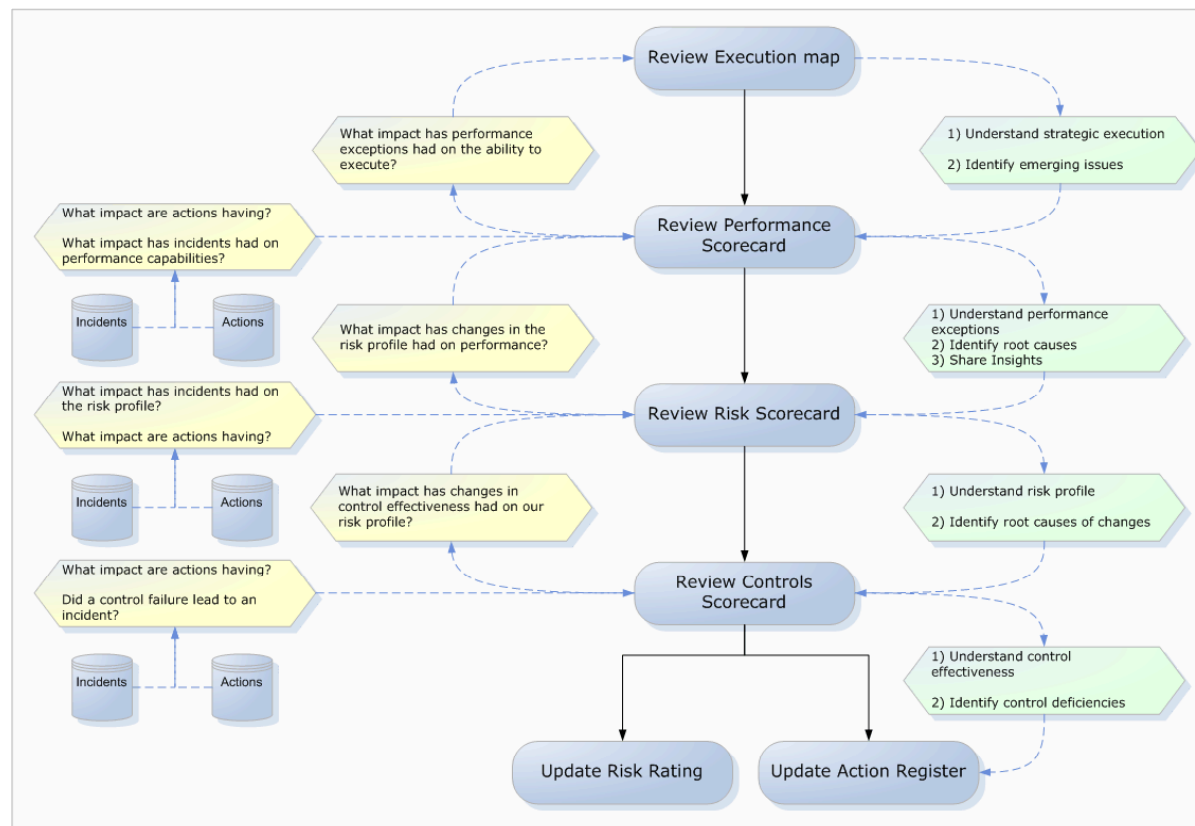


Figure 19 – Risk-based performance management process

This figure shows the process that maybe undertaken when the Risk-based performance process is deployed within an organisation.



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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