
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 results

Research process

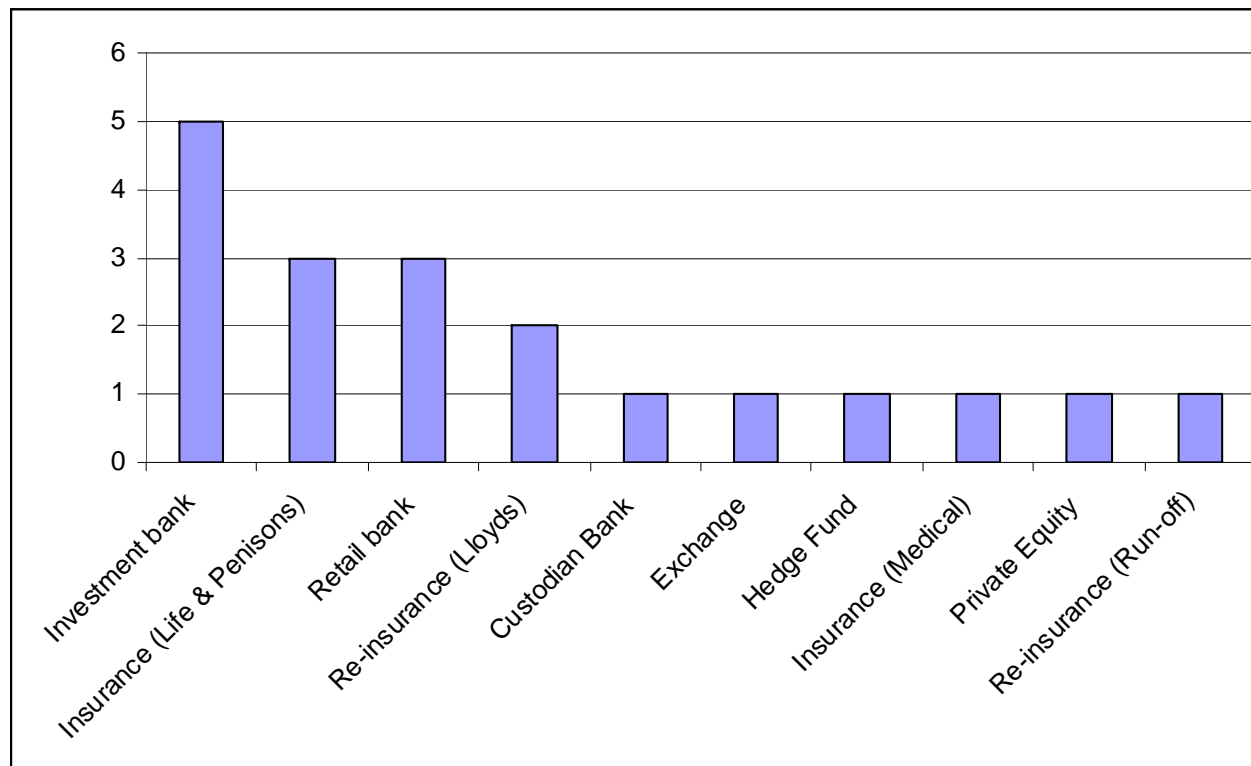
- ❑ Only 21 interviews were undertaken vs. target of 25, due to time constraints.
- ❑ Two matrices were used to summarise the environmental data and McKinsey 7s used to present key themes in the research data.
- ❑ Whilst in-person interviews were identified as the optimal method of data collection, for reasons of practicality and time pressures on interviewees, a number of interviews were conducted via telephone and two took the form of group interviews.

Research process (2)

- ❑ In changing the method, potential drawback identified by Saunders et al (2003) were considered.
- ❑ Thirteen out of 21 interviews were recorded. The remaining could not be recorded due to incompatible atmospheric conditions, participants' request not to be recorded, or equipment failure.
- ❑ Template analysis was used to distil data into an initial 'long-list' of sixty points, further distilled using two matrices and McKinsey 7s to identify clear themes.

Figure 21 – Breakdown by Industry sub-sector of interviewee organisations

This figure shows a breakdown of the organisations that took part in the study, grouped by industry sub-sector.



Summary results

- ❑ Increasing levels of both regulation and competition was found in eight out of ten sectors within the UK financial services industry. This demonstrates the challenging and changing environmental context of this research (see figure 24).
- ❑ The Performance and Risk Matrix was developed to summarise how the interviewee organisations were responding to the challenge of increased competition and regulation, from a performance and risk management perspective (see figure 25).
- ❑ The results show that the industry is reactive and tactical in its response. With greater emphasis on meeting the regulatory challenges via risk management.
- ❑ Only 4 organisations were categorised as “Execution focused”, with no organisations categorised as “Performance management focused” (see figure 26)

Figure 22 – UK Financial Services Environmental matrix

This figure provides an overview of the environment within which UK financial services organisations operate, mapping two key drivers of change: competition and regulation.

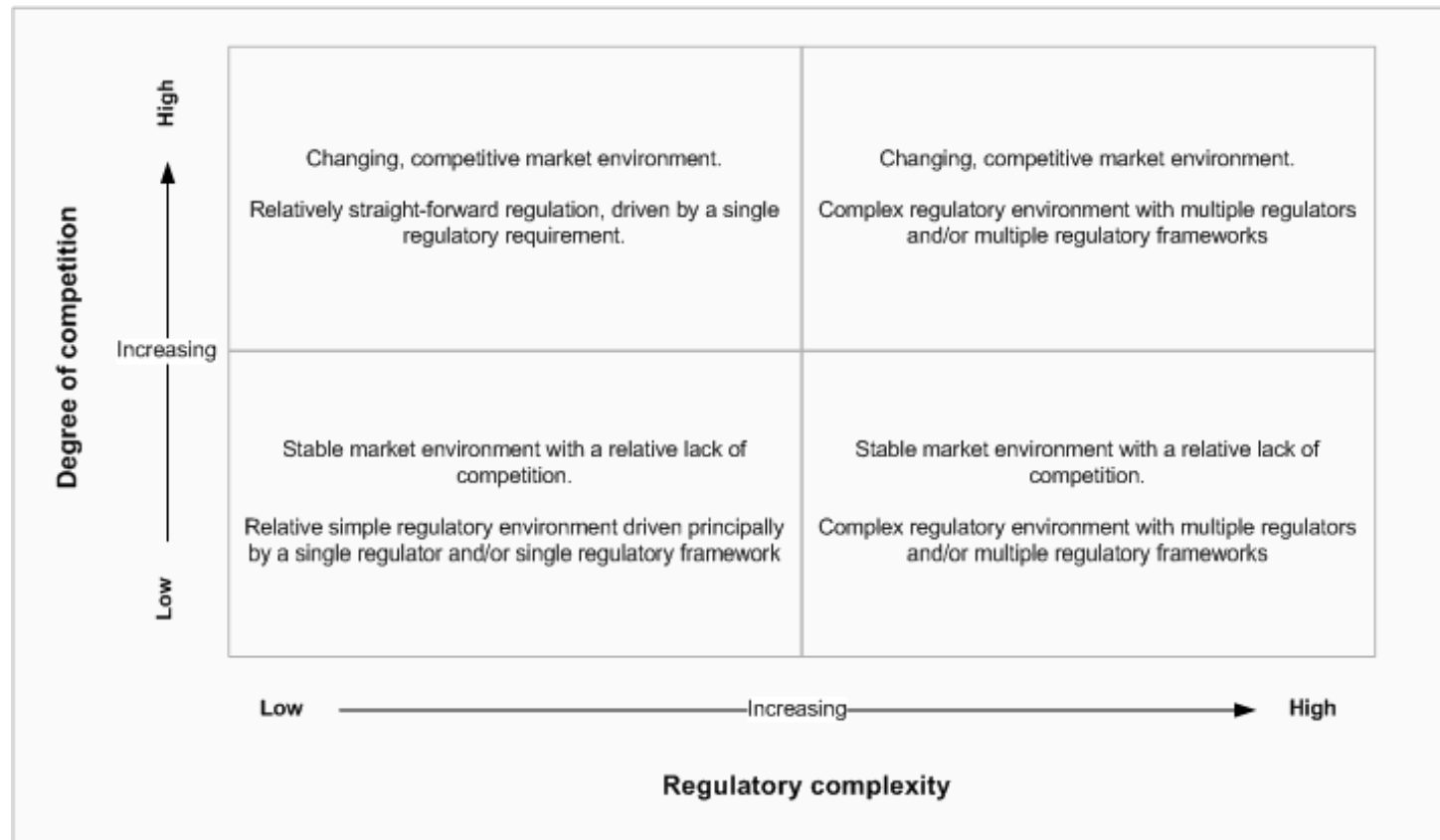


Figure 23 – UK Financial Services environment by sub-sector

This figure plots the results of the research, grouping the organisations into sub-sectors within the financial services industry.



Figure 24 – Performance and Risk Matrix

This figure shows the performance and risk matrix used to group and summary the research results.

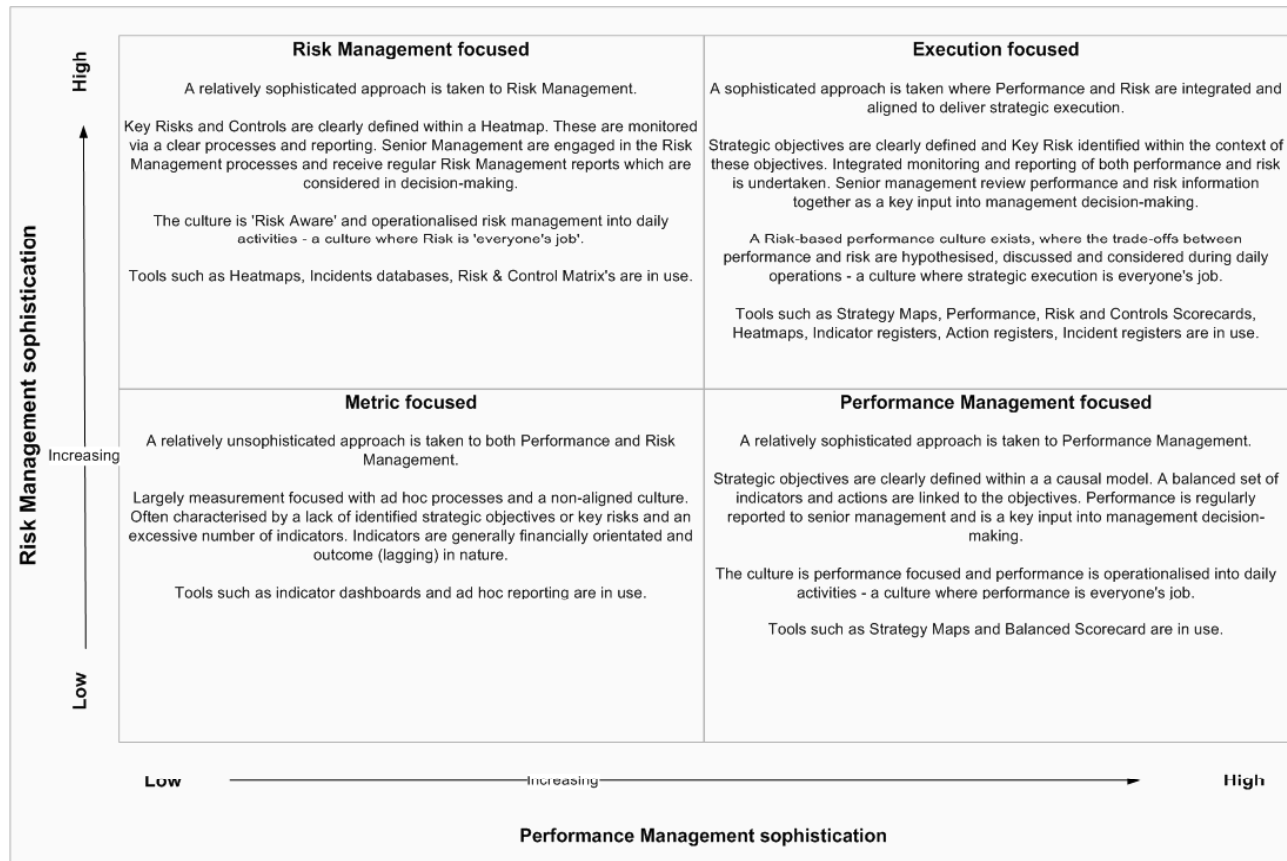


Figure 25 – Performance and Risk Matrix of interviewee organisations

This figure shows the interviewee organisations plotted on the Performance and Risk Matrix.

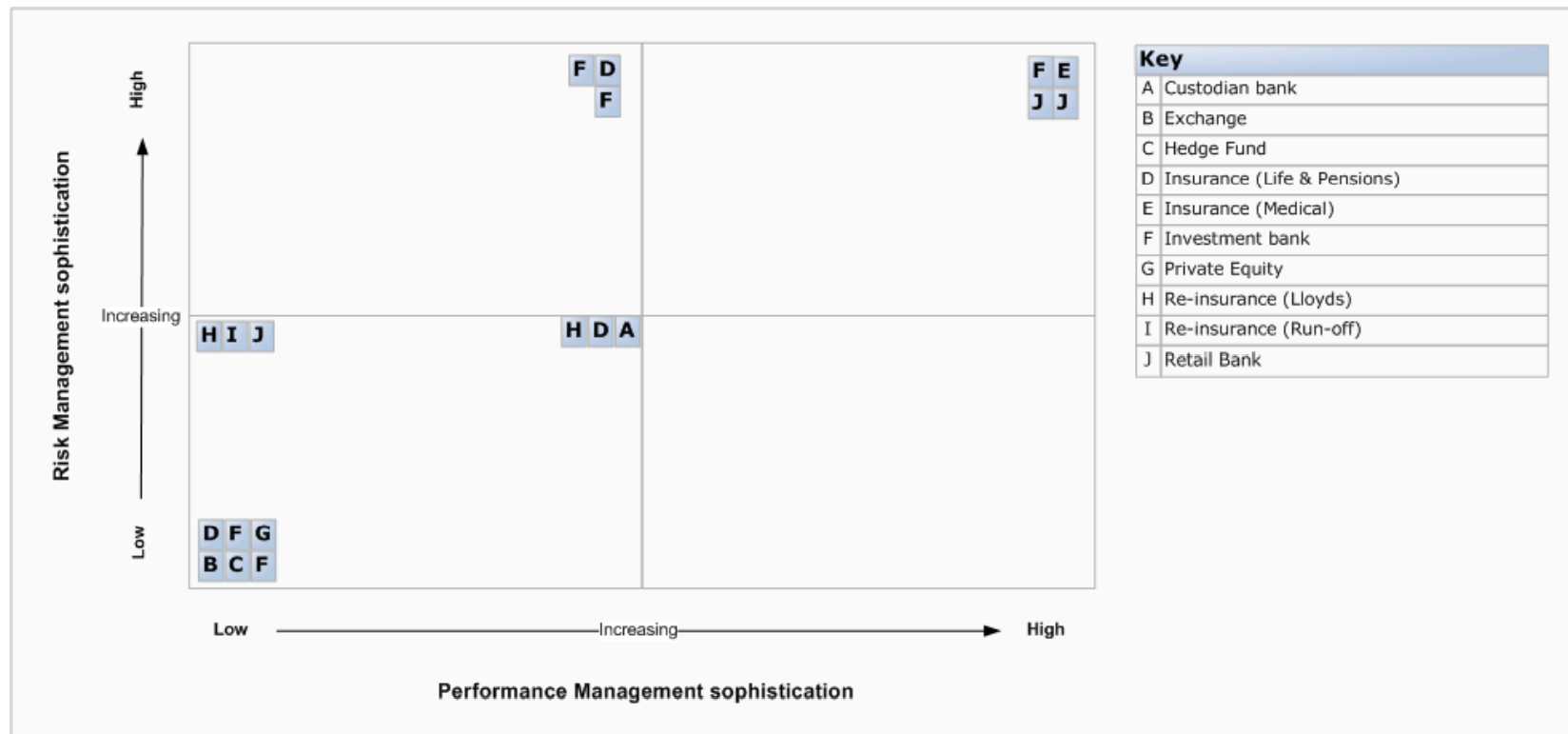


Figure 26 - Key themes to emerge

Key Themes	
Structure	<ul style="list-style-type: none">• process silo• committee structure• risk and compliance focus
Strategy	<ul style="list-style-type: none">• reactive approach taken to regulation• effective use of capital and increasing transparency• just good strategy
Systems	<ul style="list-style-type: none">• clear and well defined reporting and review cycles• lack of use of the Balanced Scorecard• tactical indicator driven approach• formal IT systems vs. spreadsheets• keep it simple, stupid (KISS)
Shared Values	<ul style="list-style-type: none">• challenge of embedding operational risk into the daily culture & decision-making• developing and sustaining the desired culture• role of organisational learning
Style	<ul style="list-style-type: none">• lack of maturity surrounding performance management and operational risk management• data, data and more data
Staff	<ul style="list-style-type: none">• linking compensation to performance management and/or operational risk management indicators• use of Gateway process• Chief Risk Officer appointments

Structure

❑ Process silo

- original assumption that a 'silo approach' was taken to performance management and operational risk management processes appear to be validated
- nine interviewee highlighted this as a issue
- Risk-based performance recognised as a methodology for overcoming this - *"I think your approach makes a lot of sense. The challenge in many organisations is they operating [their PM and ORM processes] in silos"*.

❑ Committee structure

- there is significant different between performance and risk in terms of accountability.
- accountability from a performance management perspective is generally individual whereas from a risk management perspective it is generally within a committee structure.

Structure (2)

□ Risk and Compliance focus

- only two organisations explicitly differentiated the focus of the risk and compliance functions
- risk and compliance roles and mandates appears to lack clarity in a number of the organisations

Strategy

- ❑ Reactive approach taken to regulatory pressures
 - 14 of the interviewees indicated that their efforts to enhance performance or risk management processes were largely reactive and driven by individual regulatory requirements
 - this suggests that few financial services organisations are taking a strategic view or attempting to drive business value from these processes
 - only seven cited reasons for a more proactive approach; four suggested improved transparency and increased available capital, while three stated it was 'just good strategy' to have these processes in place

Systems

- ❑ Clear and well defined reporting and review cycles
 - use of clear and well-defined reporting and review cycles emerged as a common practice; fourteen interviewees said this was part of their current process
 - execution-focused organisations had the most disciplined and focused reporting and review processes, with different meetings at different frequencies, each with a clear purpose

- ❑ Lack of use of the Balanced Scorecard
 - perhaps one of the most surprising results from the research was the limited use of the Balanced Scorecard
 - ten interviewees said their organisation did not use the Balanced Scorecard and a further three stated that they 'might' use the Balanced Scorecard but could not be sure.

Systems (2)

❑ Lack of use of the Balanced Scorecard

- only two interviewees, both execution focused organisations, stated that they used the Balanced Scorecard
- feedback on the proposed R-bp approach was very positive, with its use of the Balanced Scorecard as an underlying concept
- while there appears to be a lack of adoption , paradoxically there was solid recognition of the Balanced Scorecard and support for it as the basis for the Risk-based performance methodology.

❑ Tactical indicator driven approach

- eight interviewees indicated that their PM and/or ORM processes were very much driven by the use of tactical indicators, primarily Key Performance Indicators (KPIs)

Systems (3)

□ Formal IT systems vs. Spreadsheets

- almost half of the participant organisations stated they employed formal IT systems (eight interviewees), with others using spreadsheets (seven interviewees); three participants employed both
- in terms of respondents' assessment of their relative merits, two respondents, using formal systems, believed the systems were making their jobs more difficult and therefore did not favour their use.

Systems (4)

□ Keep it simple, stupid (KISS)

- an interesting point to emerge related to the need to remove complexity from PM and ORM processes and take a “keep it simple” approach
- five interviewees highlighted this as either one of their current focuses or as one of the critical success factors in their processes
- on this point feedback on Risk-based performance was mixed
 - it’s comprehensive nature created concern it could be complex to implement and maintain
 - there was recognition that by being specific about the use of the different scorecards and indicators types, this should reduce complexities
 - six interviewees suggested it was right to consider PM and ORM together and integrate them

Shared values

- ❑ The challenge of embedding operational risk into the daily culture & decision-making
 - embedding operational risk management into the daily culture and decision-making processes emerged as one of the most significant challenges facing the financial services industry, with nine interviewees touching on this topic

- ❑ Developing and sustaining the desired culture
 - much literature and at least one of the interviewees hold the view that PM and ORM are primarily about culture and creating a conducive environment

Shared values (2)

- Developing and sustaining the desired culture
 - seven of the interviewees provided some insights into the type of culture they were seeking to create, characterising it as an “open, honest, no surprises” culture, with accountability and open communications
 - four interviewees reflected opinions on culture reminiscent of Kaplan and Norton when they commented that performance and/or risk should be everyone’s job

Shared values (3)

□ The role of organisational learning

- two interviewees discussed the impact of experiencing a significant risk event and how that shaped approaches to operational risk management
- two interviewees discussed the use of organisational learning as a key part in their PM and ORM processes
- execution-focused organisations appear to have a greater recognition of the importance of embedding organisation learning into their processes
- interestingly, each of the four organisations categorised as execution-focused appear to have evolved into this position over time rather than arriving via a more deliberate path

Style

- ❑ Lack of maturity surrounding performance management and operational risk management
 - there is significant lack of maturity which exists in relation to PM and ORM, with 14 interviewees highlighting this as an issue
 - the lack of maturity was apparent across organisations and more broadly, across the industry

- ❑ Data, data and more data
 - there is a perceived need/requirement to develop totally data-centric processes
 - it appears that many organisations focus too heavily on data, and lack the mechanism for capturing management judgement and experience

Staff

- ❑ Linking compensation to performance management and/or operational risk management indicators
 - linking compensation, particularly bonus payments, to performance and/or operational risk indicators emerged as a key insight
 - six interviewees discussed how their current processes linked compensation to performance and/or risk
 - this was regarded as a key success factor for gaining buy-in and embedding the processes

Staff

❑ Use of Gateway process

- linked closely to the previous point, the use of “gateway” processes emerged as a key insight
- six interviewees (four in common from the previous point) highlighted their use of such a process

❑ Chief Risk Officer appointments

- only three organisations stated that they had appointed a Chief Risk officer at executive level
- given the nature of the industry this seems low and reinforces the impression of a lack of maturity related to risk management

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.

Or contact;

Andrew Smart

Managing Partner

Manigent Limited

andrew.smart(at)manigent.com