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white paper

Risk and Corporate Performance Management Convergence

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Risk and Performance – Workers, Managers and Leaders

There is an old story about the difference between workers, managers, leaders.

A railroad and a bridge needed to be built through the jungle. The workers were busy sawing boards, and shaping rocks, with foremen supervising their work and making corrections to ensure that the tasks were carried out correctly. The managers oversaw the foremen, while other managers were in the nearby building that served as the local headquarters, going over blueprint plans for the railroad and bridge, and 'crunching' the financials. One manager, a leader, climbed the highest tree nearby, surveyed the land, and called out, "Wrong jungle!"

There are four prominent lessons to be learned with this short story in relation to risk and performance. The first is that your execution needs to be aligned with strategy, and if they are not aligned, even if all of your assets are working to their utmost efficiency, they may not being doing their jobs correctly achieve success. The second is that in the processes and tasks of execution itself, there are numerous risks that need to be managed for superior performance. The third is that in every venture there is risk of inefficiency or failure which needs to be managed, from strategy through the PMO office, to business unit tasks and technologies. The last lesson for organizations is that leaders make the necessary visionary and strategic changes in organizations. Even if they start as the lone voice, leaders need to understand the strategic risk and cry, "Wrong Jungle!"

These four lessons relate to the business management concepts of corporate performance management, business process & systems Integrity, risk management, and leadership and organizational design.

By linking governance, risk & compliance with cooperate performance management to a single manageable process, you can effectively create a result that is greater than its parts – in that you bring together and focus on the common critical areas and ideally reduce the overall overhead.

Due to the almost universal adoption of automated process solutions and related risk areas, it is possible to combine the mitigation of risk as well as performance improvement once you have a firm understanding of how the two are interrelated.

Risk and Corporate Performance Management

Alignment of corporate strategy and business process operations

No corporate strategy can be effective without analysis of operational goals and measurement of their execution.

Corporate Performance Management (CPM) consists of aligning corporate strategy to core business processes through management methodologies, so that strategy and business processes are transformed into actionable activities necessary to effectively manage operations, while generating the necessary metrics to improve the performance of an organization.

> **"In the knowledge-based organization, all members have to be able to control their work by feedback from their results to their objectives." – Peter Drucker**

Whether Balanced Score Card initiatives, Outsourcing Service Level Agreements, Key Performance Indicators, Critical Path Analysis or other methods of process improvement - effective management systems already exist which have the ability to link strategy to their underlying business processes, a concept known as Alignment.

However, as is often noted, "you cannot manage what you do not measure." Many of these strategies for performance improvement fail to deliver because even though they are aligned, there is no effective existing underlying system for measurement and accountability.

The risk of misalignment, reduced efficiencies, and even failure exists from the inability to easy and efficiently view, manage and govern business process execution through analysis and an effective framework.

Risk Management

Managing Risk to Attain Objectives

Risk management is a central part of any organization's strategic management. It is the process whereby organizations methodically address the risks attached to their activities with the goal of achieving sustained benefits across the portfolio of all activities. The focus of effective risk management is the identification and treatment of these risks.

Risk can be defined as the combination of the probability of an event and its consequences. Risk Management is increasingly recognized as being concerned with both positive and negative aspects of risk. In all types of undertaking, there exists the potential for events and consequences that constitute opportunities for benefit (upside) or threats to success (downside).

Risk Drivers

A risk model or point of view should be comprehensive, and address risks that can affect an organization from multiple dimensions, addressing both external and internal sources.

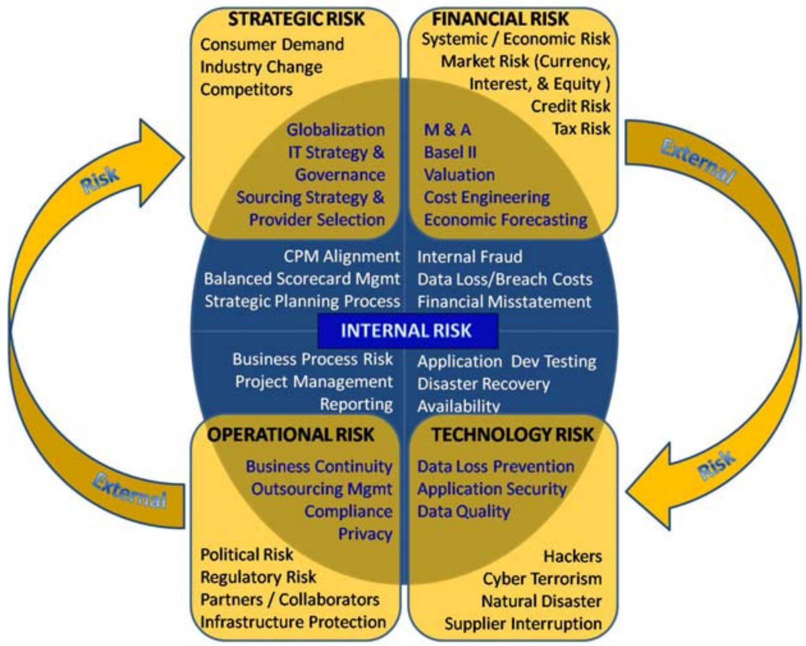

Diagram: Milton Alexander Risk Driver Point of View

The nature and form of these risks are usually varied, leading to a difference in management or mitigation. However, there are key and common features in the way the risks are mitigated - the risk mitigation solution is the responsibility of either an individual or individuals somewhere within the organization and the solution itself is a tangible control or control activity.

By its very nature, business and organizational risk can take on many forms, just as the steps necessary to mitigate those risks. The concept of Risk Management (RM), or now more commonly referred to as Governance Risk and Compliance (GRC), has traditionally required a multitude of solutions and processes be followed in order to give management sufficient assurance that the risks were sufficiently mitigated.

Part of the answer, we believe, is for organizations to better integrate their risk, value management processes and capabilities, and to stimulate risk and value optimising decisions at all levels of management. We provide solutions to these challenges in four contexts:

Creating risk and value insights - evaluation of strategy supported by the analysis of risk and value drivers and detailed business modelling.

Designing optimal processes and structures - assess, envision, and align risk and business processes structures, creating costs savings, quality improvement, and increased response times.

Creating the capability - sourcing, configuration and commissioning of infrastructure to support risk and value management processes, including ERP systems.

Creating a management framework & risk dashboard - utilizing the COGS™ methodology and software, a multi-dimensional view of enterprise risks is created, in order to assist your organization better manage risk, increase performance, and reduce costs.

COGS™

COGS™ is a flexible and effective interactive risk and performance management methodology and a depository application consisting of a portfolio of risks and controls. Using COGS™, Milton Alexander professionals seek to help our clients obtain their objectives, aligning strategy to business processes, and making managing risk operational through identification, assessment, and mitigation.

This can be used to helping minimize risk to corporate strategy through alignment of business processes, but also acts as the underlying backbone to management of a variety of processes and risks, including:

- Outsourcing
- ERP (Enterprise Resource Planning) package enabled processes
- Information Technology, including IT Strategy & Governance
- Security (physical, critical infrastructure, network),
- Data Loss Prevention and Privacy,
- Regulatory, and audit considerations.

Through working with all of these various business functions and technologies, COGS™ acts as the central hub for aggregating, identifying, viewing and mitigating enterprise risks.

Creating a Practical Solution

There are several additional key factors that help form the foundation of a permanent and practical solution. The COGS™ tool and methodology greatly assists in facilitating a convergent approach to both Risk and Performance Improvement. However, with or without COGS™

any risk and performance management initiative should address the following principles –

The Process Champion

Any organizational initiative that attempts to cross departments or disciplines needs the appropriate Champion. An effective risk and performance initiative just about impacts everyone in the organization so the right initial motivation is critical. The advantage of having the tool in place is that it helps expedite understanding of the 'end result' and facilitates the necessary 'buy-in' to build and then maintain the process.

The Staffing Model

To integrate a risk management and performance management methodology or application into an organization, a firm understanding of strategy, business processes, departmental drivers, compliance requirements, supporting technologies and success factors is needed for organizational change. The reality is that few individuals have such a rounded knowledge of each of these areas. A combined effort between compliance, the business unit, and technology groups supporting the business functions is needed while fielding a risk management and performance management methodology.

The solution is a permanent one and in order to reduce the implied overhead a 'virtual' team is required where the necessary skilled individuals can be brought in as required adding their abilities to help build the solutions to each area that fit into the underlying process. Typically an organization's compliance officer has been part of the finance function and interacts closely with IT. This structure still makes sense, but implies that the finance group will allow this function to evolve and interact with other departments to develop the broader solution.

The Initiative

With the underlying process solution in place and the right champion and staffing model, the key remaining factor is the creation and management of the initiative itself.

One of the motivational weapon's available to most organizations is re-imbursement and this has been shown to work successfully in separate initiatives for compliance as well as the traditional performance improvement area. By combining the two into a single process and using the COGS™ tool to provide the specific detail on what is measured – progress on risk management as well as performance improvement is now available as real-time information and can be used to provide the necessary motivation for the initial population of the system.

> **"Transformation is everybody's job."**
> **– W. Edwards Deming**

Effective facilitation of the system population is critical to ensure consistent and objective measurement so this needs to be very clearly articulated to all involved from the onset.

Once the initial population has been completed, ongoing changes will most likely be required as the organization and related processed evolve. While the amount of activity may reduce, it is still important that the objective manner in which the information is maintained is carefully monitored.

Summary

By linking Governance Risk, Compliance and Performance Management to a single process, you can effectively create a result that is greater than its parts – in that you bring together and focus on the common critical areas and ideally reduce the overall overhead.

COGS™ has been created to link the traditionally separate areas. It acts as the foundation for a comprehensive solution while at the same time facilitating the process for its successful population and maintenance.

New compliance or performance management initiatives can simply be linked to the solution so future activity can be structured in a common and practical way. The end result provides the organization with a straight forward solution that provides all the necessary real-time information to effectively manage a business.

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