

# Better Management Web Conference

## Integrating Risk and Performance Management

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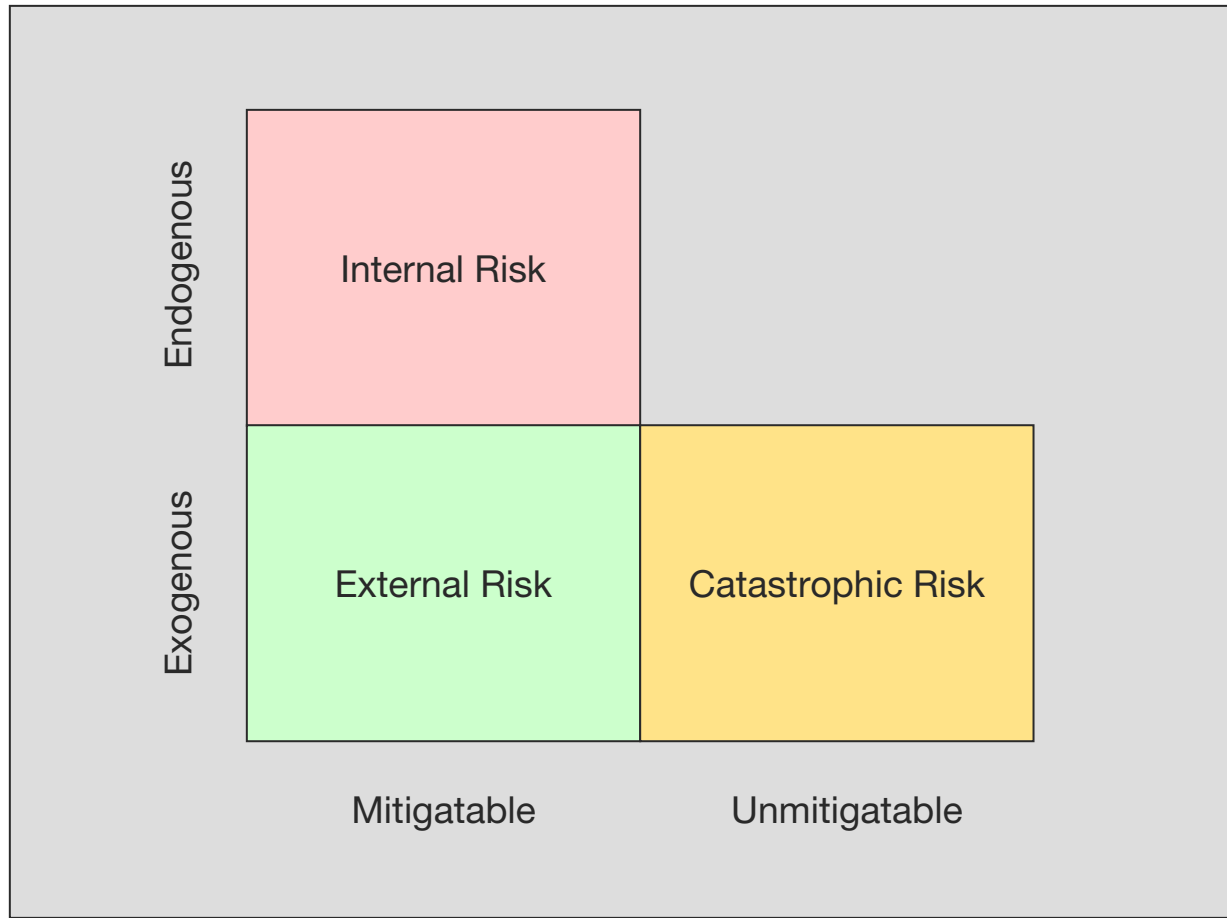
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# Types of risk





# What is risk?

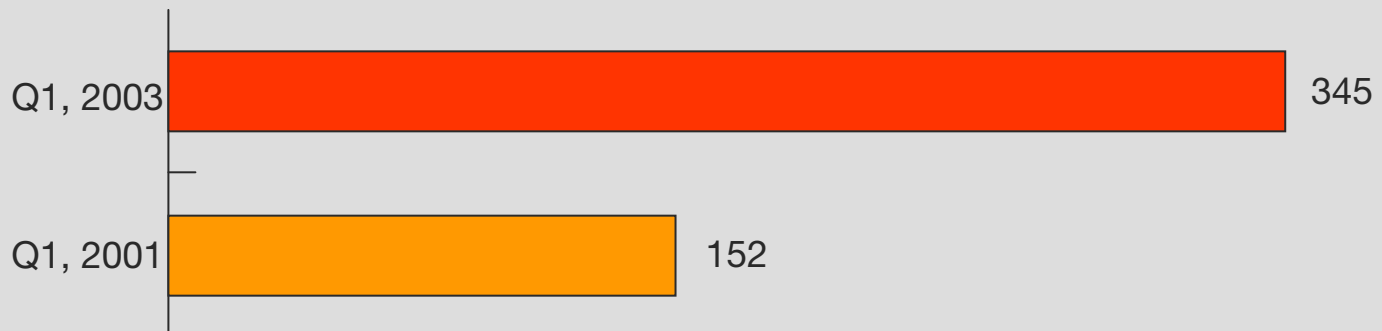
**“Any possible source of uncertainty is now treated as a risk that might need managing. This "holistic" approach addresses all potential risk exposures to a company, from:**

- legal, political, and regulatory issues, to
- shareholder relations,
- the effects of competition, and
- management competence. It encompasses
- health and safety,
- product development,
- staff fraud, and
- company reputation, as well as the purely
- financial aspects of running a business.”

Anonymous, 1998

# Risk management is topical

*Number of 'risk management' articles in ABI/Inform database*



# Risk management is not new

## Uncertainty

- The impacts of wars on markets, and storms and piracy on shipping routes, are cited as some of the major risks faced and managed by our predecessors

## Priorities

- Maslow implicitly recognised risk by placing food and shelter, both essential to survival, on the first rung of his famous hierarchy of needs

## Practicalities

- Managers, both public and private sector, have been implicitly 'managing risk' for millennia

**So why is Risk Management so topical now?**



## Risk Management by any other name . . .

**Long range planning involves the generation of predictions of the future along multiple dimensions and comparison of these predictions to the desired future organisational state**

***King, 1978***

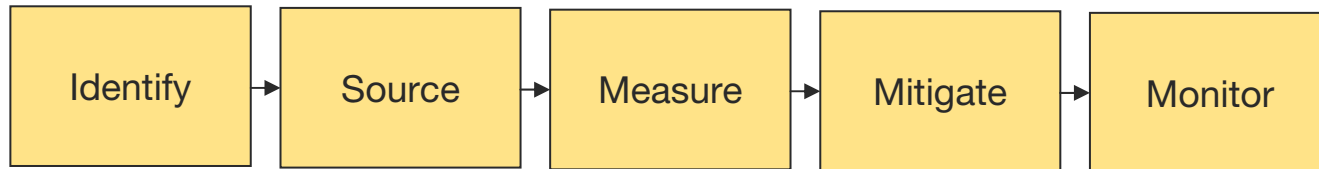
**Companies are engaging in strategic planning in an effort to better manage the “shifting conditions which can disrupt achievement of a company’s long-range plan”**

**Pomeranz, 1981**

# Risk: a definition and a management process

**“The risk of loss resulting from inadequate or failed processes, people, and systems or from external events”**

***Basle Committee, 2001***



# Risk management is evolving

## Previously

- Historical risks
- Expert management
- Statistical analysis



## Now

- Non-traditional risks
- Causes of risk
- Organisation-wide involvement
- Senior management involvement
- Risk indicators



# Case Study

## Government Procurement Agency (GPA)

**Public sector agency**

**Annual budget in excess of £9b**

**Three Board structure**

**Main Board adopted Balanced Scorecard in 2003**

**Chose a 3<sup>rd</sup> Generation approach**

Main Board

- Sets direction through the strategic plan
- Monitors organisational performance
- Manages structural and process risk to the strategic plan

Programme Board

- Delivers organisation's change plan, covering all significant initiatives coming from the strategic plan
- Manages risk to the change programme

Executive Board

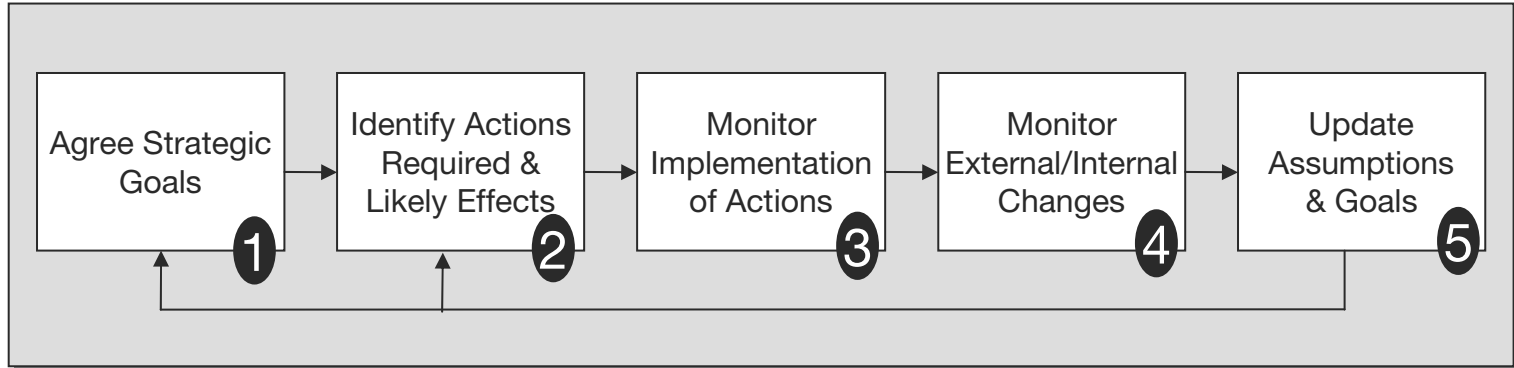
- Shorter-term focus
- Manages delivery of outputs to meet Customer Supplier Agreements
- Reconciles budgets, finance, outcomes

*“The fundamental principle behind the scorecard is ensuring that we achieve the expected results from the actions we take in order to achieve our goals. It is not only designed to check whether decisions have been successfully implemented but also to enable us to review whether we are taking the right actions and getting the right results.”*

GPA's Latest Business Plan

# Strategic Control & 3<sup>rd</sup> Generation Balanced Scorecard

## Strategic Control Process



## 3<sup>rd</sup> Generation Balanced Scorecard Components

### Destination Statement

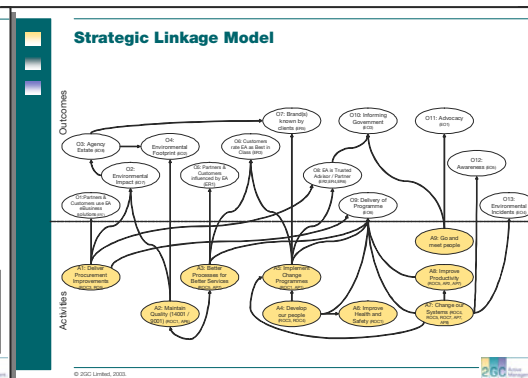
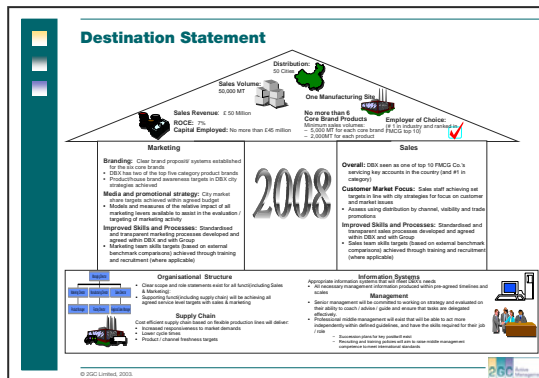
- To build management consensus
- To articulate the intended results of implementing the chosen strategy

### Strategic Linkage Model

- To identify what actions must be taken, and what interim outcomes are required, to deliver the strategy

### Measures & Targets

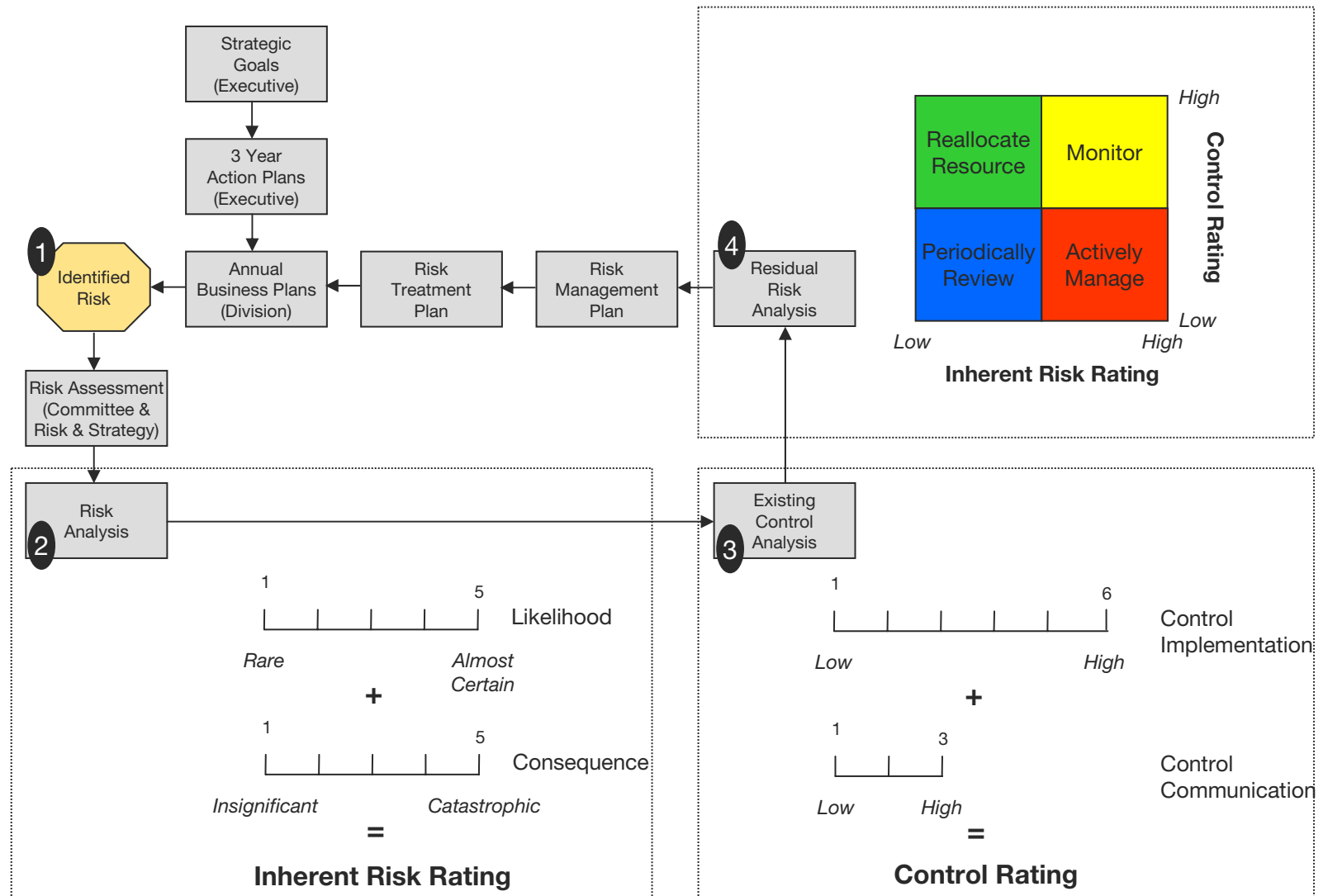
- To track whether objectives are being achieved
- To drive the right management actions



### Balanced Scorecard Measures & Targets

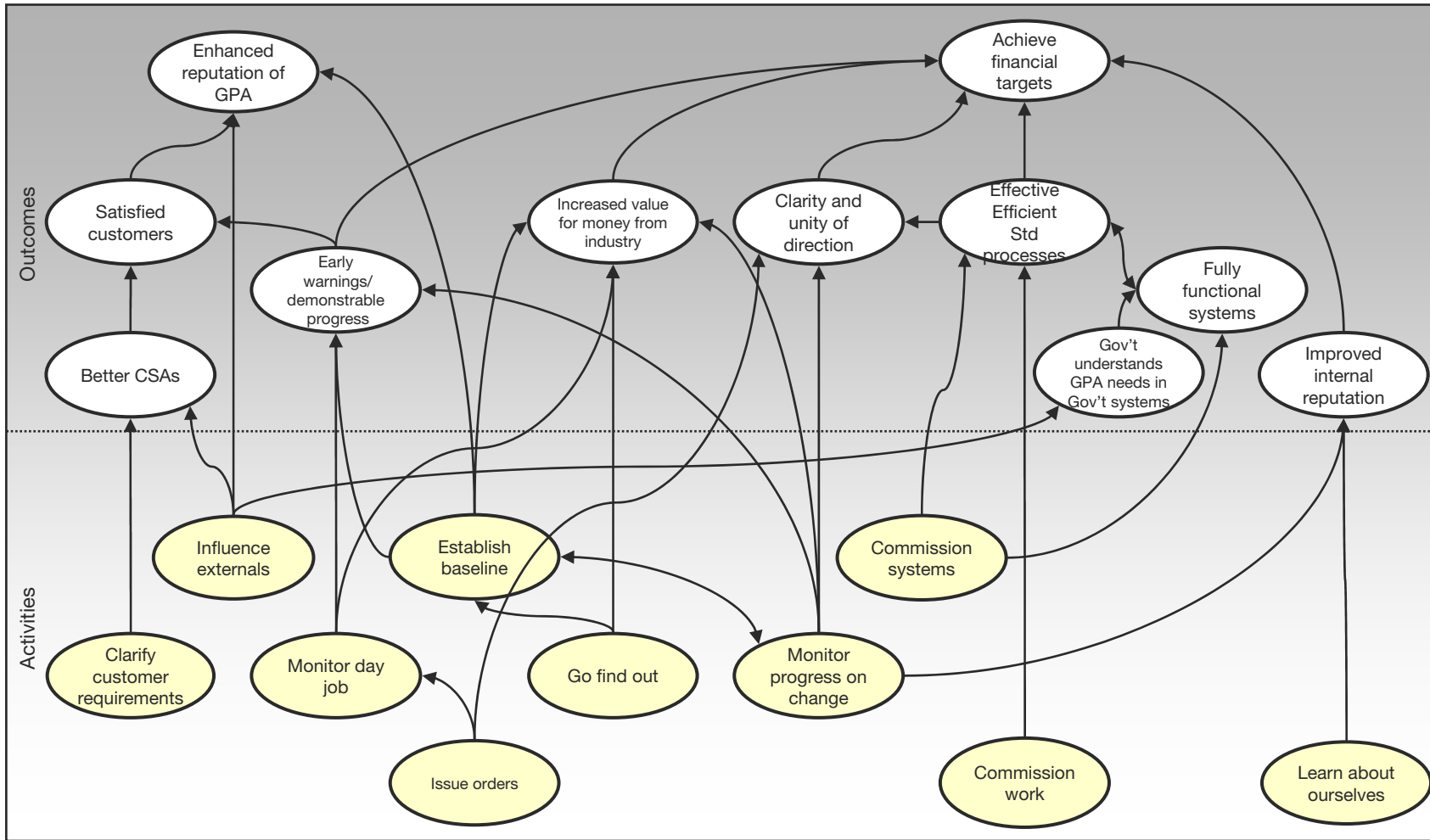
Objective	Measure	Value	Target	Performance comments to objectives	Objective Owner
Customer Satisfaction	F1.1	206	1500	Customer expected level of CS for activity year, but share price still around 1,000 pence leading to low P/E compared with sector and results from previous year	NG
Customer Satisfaction	F1.2	8	18		NG
Customer Satisfaction	F2.1	200	185		NG
Customer Satisfaction	F2.2	-6	4	Increasing cash return from divisions B and D but needs of investments in B and C makes the group cash negative for at least another 12 months	NG
Customer Satisfaction	F3.1	1,000	1,640	Division D still far behind budget. C positive but below budget. A on budget (but budgeted). L4, L6 sales positive in D driven by brands. C index 100 (L4, L6)	NG
Customer Satisfaction	F3.2	650	488		NG
Customer Satisfaction	F4.1	17	24	No major M&A targets in sight yet. Positive cover - 40% due to aggressive growth targets combined with severe scarcity of targets. Profit mix and growth market numbers not available yet	NG
Customer Satisfaction	F4.2	257	600		NG
Customer Satisfaction	F5.1	7.65%	7.44%	Costs average 10% > Category 1 competitors. On level with category 2 competitors	NG
Customer Satisfaction	Fin1.1	85%	74	More shareholders vary about our future earnings potential due to drop in TSR and general negative press. All at least to next big announcement including the threat and direction	ES
Customer Satisfaction	Fin1.2	6	7		ES

# An Australian Environment Agency Strategic Control / Risk Management Process



# Case Study

## GPA Strategic Linkage Model



# Case Study

## GPA also had a top-level risk register

	#	Top-level Risk
Operational Outputs	1a	Inadequacy of current arrangements to define requirements and ensure delivery
	1b	Incoherent support solutions
	1c	Inability to deliver optimised through life capability
Capabilities	2a	Failure to shift the culture and behaviour to support 'Intelligent Decider' role
	2b	Failure to build capabilities to support 'Intelligent Decider' role
Resources	3a	Failure to achieve cost reduction of £1.2b by 2006
	3b	Failure to secure investment to fund transformation
	3c	Failure to implement output costing & output management
	3d	Lack of coherence between EP and STP
Industry	4a	Inability of industry to successfully transform to support move to Decider role
	4b	Lack of stakeholder support for transforming logistic support
	4c	Lack of confidence by front line in industry's ability to deliver

# Case Study

## GPA attempted to map objectives and risks

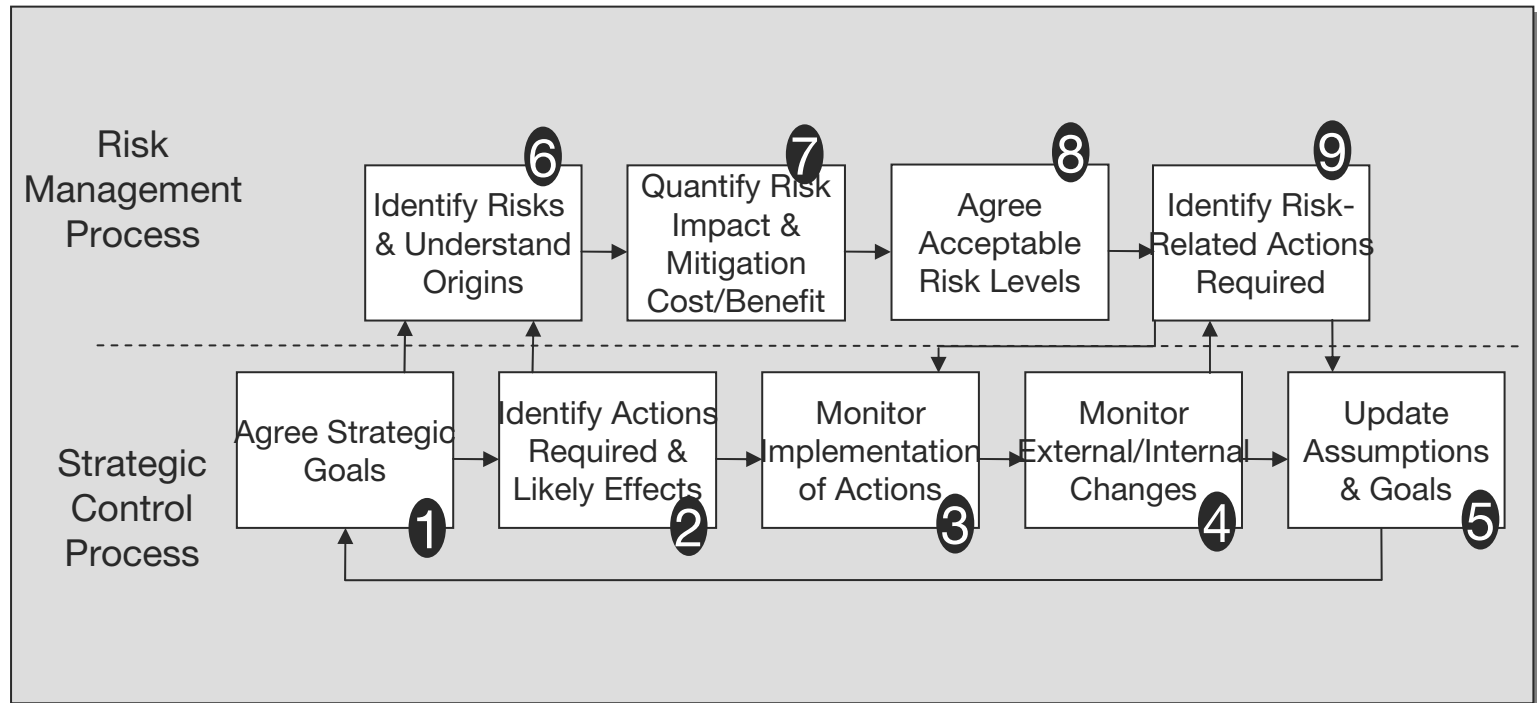
### Combining Risk and Performance Management Information

- Top level risk were cross-checked against activity objectives on Strategic Linkage Model
- All the Risk Factors mapped to objectives on the Balanced Scorecard
- Not all the Balanced Scorecard objectives mapped to risks on the Risk Register
- Implication, ~40% of critical strategic objectives were not being managed by the risk management process!

**Top Level Risks**

	1	2	3	4	5	6	7	8	9	10	11	12
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# A process for integrating risk management and strategic control processes



# Conclusions

## **Primary objective of 'risk management':**

- To identify the actions required to maximise likelihood of achieving organisational objectives

## **Objectives for 'performance management' very similar**

- Though emphasis is different: 'good things' vs 'bad things'

**Similarities suggest that there is value in integrating processes to manage performance and risk**

**Foundation must be robust strategic control/performance management system**

- Risk is only one element that managers must control

# Preparing for implementation

## How 2GC can help



### **If you are exploring Balanced Scorecard for the 1st time –we can help:**

- Build a case for change - Give basic training - Provide management briefings

### **If you are starting a Balanced Scorecard project – we can help:**

- Supply advanced training - Design the Balanced Scorecard project/programme
- Give presentations and briefings - Provide facilitation / project support

### **If you already have a Balanced Scorecard – we can help:**

- Give briefings on Balanced Scorecard trends - Audit existing Balanced Scorecards
- Redesign / reset existing Balanced Scorecards - Providing coaching support
- Link Balanced Scorecard to other management systems - Advise on software selection

# 3rd Generation Balanced Scorecard

## To find out more

### Meet 2GC ([www.2gc.co.uk/events.asp](http://www.2gc.co.uk/events.asp))

- Conferences / Presentations
  - July
    - PROJACS Conference, Lebanon
  - July
    - PMA Conference, Edinburgh
  - October
    - BM Live!, Las Vegas
- Training Events
  - July – United Kingdom
  - August – Malaysia
  - September – United Kingdom

### 2GC Performance Management Resources ([www.2gc.co.uk/resources.asp](http://www.2gc.co.uk/resources.asp))

- Presentations, FAQs, Case Studies, White Papers, Internet Links, Software Vendor database – all free to access

### Contact 2GC

- Let us know if you have a question you can't answer, we'll do what we can to help... email to [Ask2GC@2gc.co.uk](mailto:Ask2GC@2gc.co.uk) or call on +44 (0) 1628 421 506

