Information Builders

The Importance of Incorporating Risk Management Into Your Performance Management Strategy

A White Paper

by David Cook

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David has spent more than 20 years at Information Builders designing and creating new business intelligence (BI) products – including early PC/FOCUS, Cactus, Developer Studio, ERP Solutions, WebFOCUS – and he was a founding member of the EDA/SQL Division, which later became iWay Software.

Prior to joining Information Builders, he was an Information Center consultant and developer at a major West Coast bank, where he first encountered FOCUS.

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Executive Summary

At Information Builders, we see more and more companies realizing the necessity of a comprehensive, broad-reaching performance management strategy. In fact, AMR Research claims that worldwide spending on performance management, and related business intelligence (BI) technologies, topped $57 billion in 2008.[1]

Yet, many organizations fail to achieve the desired results from their performance management initiatives. Even with well thought-out plans in place, they struggle to reach goals, or yield only moderate improvements in productivity and cost-efficiency. According to many experts, this is often caused by lack of attention to relevant risks. In other words, while most companies work towards meeting their key objectives, they do not take into account the threats and obstacles they are likely to face along the way.

In this paper, we will discuss the importance of making proactive risk management a key element of any performance management effort. We will highlight the problems that may arise when strategies are defined and executed from a performance-only perspective, and what challenges businesses may face when attempting to effectively blend performance management and risk management into a single, cohesive strategy. We'll also look at enabling technologies, and what you need to know when choosing a solution to support integrated risk- and performance-management initiatives.

Finally, we'll provide an overview of Information Builders Performance Management Framework (PMF), a robust platform for enterprise-wide performance and risk management. We'll highlight key features and capabilities, and demonstrate what makes PMF the ideal choice for companies embarking on a unified performance- and risk-management strategy.

1 McGreevy, Maura, "Spending on Business Intelligence and Performance Management to Top $57.1B in 2008," AMR Research, 2008.

Risk Management: Why It's Critical

Simply put, risk is exposure to potential loss or damage. It is the misfortune that may possibly occur during the course of certain actions, even if those actions are expected to produce significant benefits.

Where does risk fit in with today's corporate strategies? What role does risk play in performance management?

Each day, companies face countless risks when executing routine operations. While most of these risks are minimal, some of them could profoundly affect both the current and future state of the business.

All business activities, no matter how small, have certain associated risk factors. For example, consider a company that hires a third-party collections agency to retrieve overdue funds from clients. While the money collected will, ultimately, contribute to short-term profitability, the tactics used by that third-party agency may prompt some customers to take their business elsewhere.

If specific processes or actions come with substantial risks and those activities are tied directly to the achievement of mission-critical goals, then those risks must be carefully defined, monitored, and managed so they don't throw strategies off course.

Deloitte Consulting put it best when they stated, "Modern management is based on an integrated approach, which takes into account and permanently monitors both the success and risk factors of a business strategy. A performance-oriented assessment of the effective risk situation consequently enables value-based business management." [2]

There are many types of risk that can negatively impact business operations, and ultimately, the attainment of corporate objectives, including:

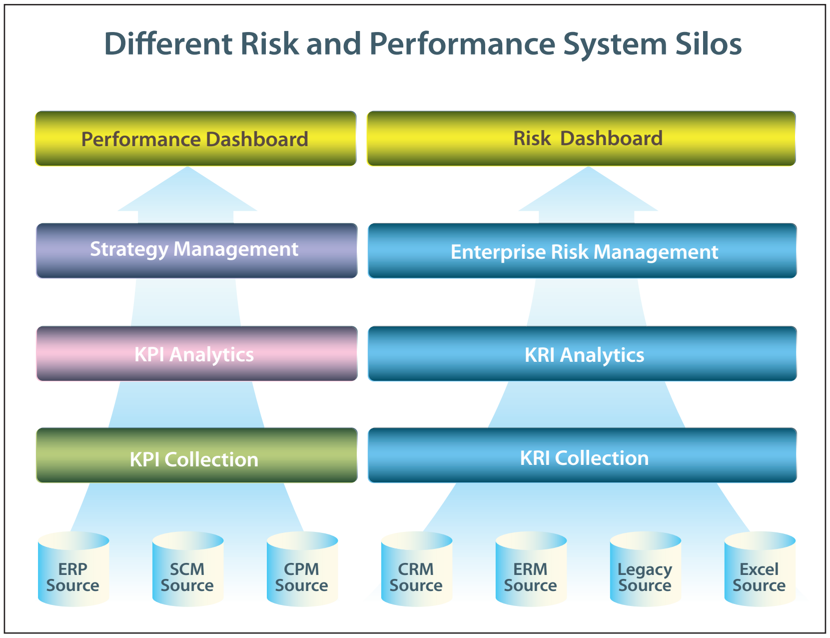
- **Market risk –** threats involving external factors and stakeholders, including competition, shareholders and investors, political unrest in countries where a company does business, etc.
- **Operational risk –** internal risks such as employee safety during dangerous – but necessary – business activities, the unexpected breakdown of key equipment, staff fraud or theft, etc.
- **Credit risk –** the potential financial impact that can result from customer non-payment, interest charged on business loans taken by the company, etc.
- **Compliance risk –** losses incurred by failing to respond to guidelines and legislation imposed by the various regulatory bodies that govern a business.

Leading consulting firm Accenture further validates the importance of risk management for performance optimization. "Companies that successfully leverage advanced-enterprise risk management capabilities to drive toward high performance view risk management in an ever-expanding and broader context. Managing risk can mean everything from using financial

[2] "Risk & Performance Management," Deloitte AG, 2009.

instruments to managing specific financial exposures, from effectively responding to rapid changes in the business environment to reacting to natural disasters and political instability."[3]

Let's look at another example. A company invests a significant amount of resources trying to enter a new market. Engineering, research and development, and production staffs spend months – or even years – designing and building a new product. Sales and marketing teams dedicate themselves to formulating go-to-market strategies. Executives and financial managers set aside substantial portions of their budget to support these and other activities. While the possible rewards are tremendous – new revenue streams, higher profits, and expanded market share – there is also the possibility that the company's efforts will fail, and all that time and money will have been spent in vain.



The problem, unfortunately, is that few companies consider risk – or proactively monitor and manage it – when they define and implement their performance management strategies. When plans are laid and resources are allocated, focus is placed only on the positive outcomes the company hopes to realize, not the negative factors that may emerge, hindering the achievement of those outcomes.

Companies that create and deploy strategies from a performance-only perspective will face many problems along the way. Some of these issues may include:

- Limited understanding of the specific threats that can impede the realization of performance goals could result in an organization being blindsided by risks they never even considered

[3] Fanous, Maged G., Rombough, David E., and Choudhury, Roy, "Finance Mastery (II): Enterprise Risk Management as a Key to High Performance," Accenture, 2006.

- Inability to precisely quantify exposure and prioritize threats can hinder the assessment of risk versus reward, and the accurate determination of whether the benefits of a planned venture outweigh the potential costs
- Lack of proactive risk monitoring, detection, and avoidance means that even when companies are aware of threats, they are unable to effectively track them, making it difficult to prevent those risks from having a negative impact

Companies that take a performance-only approach, without properly blending risk management into their strategies, will realize only marginal improvements in operational efficiency. In fact, Gartner estimates that, through 2011, at least 50 percent of companies that implement performance management initiatives will fail to improve performance management processes across their business.[4] Many experts are coming to realize that true performance management optimization – and ultimately, maximized profitability and sustained competitive advantage – can only be achieved when potential risk and consequences are properly measured, managed, and blended with the performance goals pursued by the company.

[4] "Gartner Survey Shows Corporate Performance Management Is the Highest Priority in Business Intelligence in Europe," Gartner, Inc., 2008.

Blending Risk and Performance Management: The Challenges

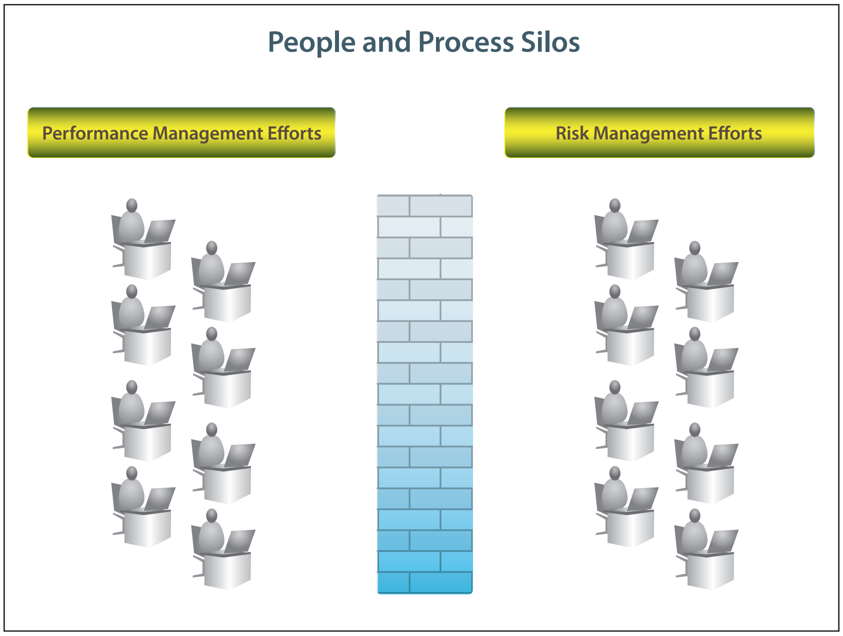
When a company embarks on an integrated performance- and risk-management strategy, there are many obstacles that may present themselves along the way. The first, and most challenging, is bringing together the disparate teams responsible for managing performance and risk.

In most companies, financial or operational executives have traditionally overseen performance, while risk analysts in functional departments perform risk assessment and management. These two groups often have conflicting priorities and may disagree about, or not even determine their organization's acceptable level of risk.

For example, financial risk analysts may be against the acquisition of another company, fearing that the merger will be too expensive and fail to deliver appropriate value to shareholders. Business analysts, on the other hand, may have greater insight into benefits that, while difficult to quantify in the short term, can deliver significant returns over the long haul – such as accelerated entry into new markets, or the ability to leverage the other firm's established partner relationships.

Many experts believe the problem stems from lack of communication and collaboration between the two groups. Each possesses little insight into how their operations, activities, and findings impact the other, and, without effective collaboration and information sharing, performance and risk can never be properly balanced.

Many companies also struggle to collect and consolidate the data needed to track performance and risk. This information is often scattered across diverse, geographically dispersed technology architectures, where it is housed in poorly integrated siloed systems. Few businesses have the infrastructure in place to unite those data sources and achieve complete visibility of performance and risk across the enterprise.

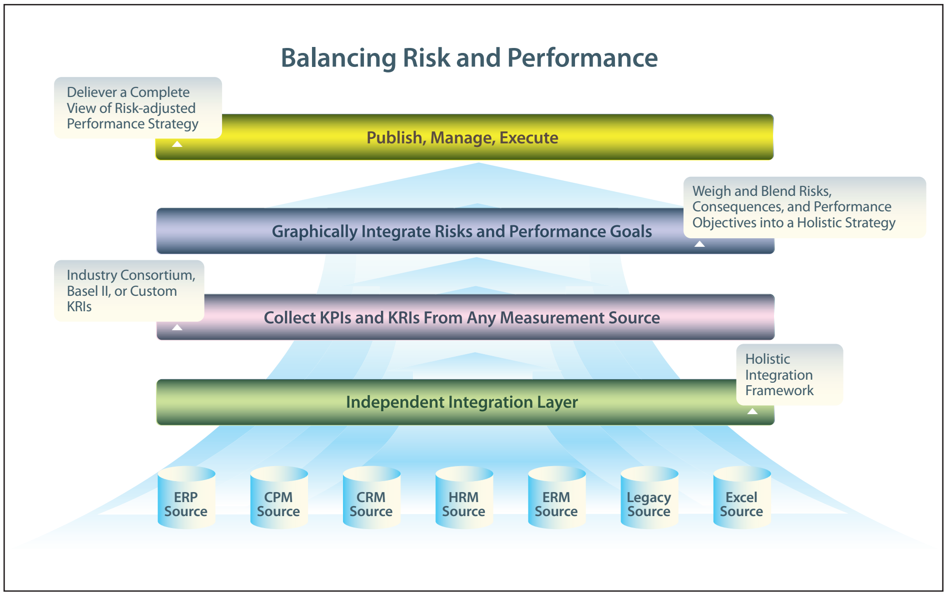


Perhaps the biggest roadblock to effective balancing of performance and risk is that it requires inherent changes in the company's culture. Blending risk- and performance-management efforts is about more than just implementing and using integrated reporting and analysis tools: it's about creating an environment where risk is considered and assessed at every step during the strategic planning processes, and then proactively monitored as goals and objectives are met. This way of thinking and acting must become intuitive for employees at all levels, which may require a cultural shift that takes time and effort.

Choosing an Integrated Performance and Risk Management Solution

"We need to strike a better balance between managing risk and leveraging opportunities," read a recent post from Eric Krell, a governance, risk, and compliance expert, on the blog site Big Fat Finance. "This means that we need processes and systems to help us manage a healthier balance."[5]

Once an organization has laid this foundation of integrated performance and risk management, it needs to implement a technology framework to support related measuring, managing, and analysis activities. But, with so many different performance management and risk management software packages on the market, few companies know how to determine which best meets all their needs.



To effectively support unified performance- and risk-management activities across an entire enterprise, the solution must be flexible, broad-reaching, proactive, integrated, and capable of integration.

Integration

Choosing the right system means finding one that can seamlessly bridge risk-and-performance-management capabilities – including end-to-end tracking of strategies, goals, and objectives – with effective risk-management activities, such as threat identification, analysis, assessment, and forecasting. In other words, it must link key performance indicators (KPIs) with related key risk indicators (KRIs), to provide a complete risk-adjusted view of performance.

The system must tightly integrate the various sources that house the timely, relevant, and comprehensive information needed to support integrated performance- and risk-management

[5] Krell, Eric, "Risk Management + Performance Management = Better Decisions," Big Fat Finance Blog, May 2009.

initiatives. Therefore, it must facilitate the collection, consolidation, and on-going analysis of data from any source across the entire business.

Flexibility

Company goals and plans differ tremendously from one business to the next. Similar management methodologies can vary greatly between organizations, which is why integrated risk- and performance-management systems must be able to adapt to any type of strategy. For example, it must support balanced-scorecard, just-in-time models, Six Sigma, and any other type of popular management techniques.

The solution should also make the business more agile, allowing for easy modification and customization to instantly adapt to changing external risks, such as new regulatory requirements or dynamic market conditions, as well as internal factors such as unexpected shifts in strategies or changes in corporate policy.

Broad Reach

Enterprise-scale performance- and risk-management solutions should enable goal and risk information to be disseminated to and shared with all those involved in strategy execution. Data must be readily accessible not only to executives and analysts, but across all levels of the organization, including line-of-business managers and frontline workers who will carry out the tasks that contribute to goal achievement.

Yet, satisfying the needs of such a broad and diverse user base means the integrated performance- and risk-management system must also be customizable. This will enable different users in various capacities to display, present, manipulate, and analyze information in the way that is most useful and relevant to their role in the performance- and risk-management process.

Proactivity

Truly successful performance and risk monitoring is proactive, not reactive, which is why it is so important to choose a solution that allows for real-time management of KPIs and KRIs, as well as the critical linkage of strategy to execution. Employees can see not just what has happened, but what is happening, from both a performance and risk perspective. Additionally, the system should offer dynamic alerts, instantly notifying stakeholders the moment a critical condition arises or an important event occurs.

Information Builders Performance Management Framework

Information Builders Performance Management Framework (PMF) is a powerful, comprehensive, fully integrated solution that allows companies to effectively manage performance, and related risk, across their entire enterprise. With PMF, organizations can create a culture that promotes performance optimization and accountability, while significantly improving the way they manage and control the risks that can put their performance management strategies in jeopardy.

This complete, end-to-end platform supports blended performance- and risk-management strategies by delivering a complete solution that includes:

- Unparalleled data-access capabilities. PMF supports the consumption, management, and analysis of any data in any source or format to ensure that tracked performance- and risk-related information is complete, timely, and provides the most accurate and up-to-date view of risk-adjusted performance
- Fully personalized dashboards allow users to adjust their interface, and the presentation of information, based on their role in the organization
- Strategy authoring and dissemination, rapid input and publishing of corporate objectives, and the ability to assign owners to KPIs and KRIs facilitates the creation and sharing of plans, goals, metrics, and related risks across the business
- Advanced business intelligence capabilities – including balanced scorecards, in-depth analytics, financial reporting, graphics and visualization, and mapping and geographic analysis – allow real-time tracking and measurement of risk and progress toward mission-critical goals and objectives
- A variety of features, such as dynamic alerts, intelligent information delivery, and mobile capabilities ensure that important risk- and performance-related data is always available to the right people at the right time
- Unmatched scalability, reaching any number of users or user types around the world, allows companies to extend their integrated performance- and risk-management strategies to external stakeholders such as customers, suppliers, and other business partners
- The ability to update performance and risk information on the fly enables true, closed-loop performance and risk management
- Comprehensive forecasting functionality accurately supports the strategic planning process

Conclusion

A comprehensive performance management strategy is vital to any company's ability to thrive in today's volatile economy. But, without risk management as a key element of that strategy, the needed returns and advantages will never be realized. The initiative will fail, or benefits will be moderate at best. With the right processes and solutions in place, companies can effectively balance risk and performance across their entire enterprise to facilitate the attainment of mission-critical objectives, as well as help organizations optimize productivity, maximize cost-efficiency, and gain a solid and substantial competitive advantage in their market.

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